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INCOME TAX LAW

ANALYSIS AND COMMENT

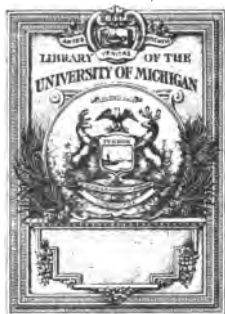
FIFTH EDITION

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INCOME TAX LAW

ANALYSIS AND COMMENT

FIFTH EDITION

1918 LAW

HARRIS, FORBES & CO.

Pine Street, Corner William

NEW YORK

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Foreword

After the enactment of each of the Federal Income Tax laws, beginning in 1913, we prepared and distributed a general analysis of each statute with comments thereon. Regarding the original statute in 1913 we published two editions. These and the two later editions, we believe, have proved of interest and assistance to our clients, especially in helping them determine their taxable status and liability. In the later editions we mentioned many provisions of the law only briefly as investors had become familiar with the general operation of income tax legislation. Especially in this, the Fifth Edition, we have not considered it necessary, nor indeed adequate, to include a mere digest of each paragraph of the Act. Rather, it is our purpose to give a general resumé of the statute and in particular to discuss the practical aspects of the more important provisions, including certain changes which Congress has made in the present law. As in previous editions, the comments are in no sense intended as a legal treatise and are made in the expectation that later rulings by the Treasury Department and decisions by the courts will affect the law's interpretation and application. We shall be pleased to assist as much as possible anyone interested in the practical interpretation of the Act.

Harris, Forbes & Co

February Twenty-first
Nineteen Hundred
and Nineteen

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Text of Income Tax Law

Revenue Act of 1918

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Table No. 1, pages 18-20, shows the Rates and Amounts of Tax to be paid by individuals, citizens or residents, on incomes from \$2,000 to \$10,000,000. An adjustment of the Table for non-resident alien individuals is also given. An Example of a Method of Computing the Income Tax is included on page 21. The graphic charts on pages 22-23 give the Average Tax on Net Income from \$2,000 to \$2,000,000 for the tax laws passed in the years 1913, 1916, 1917, and 1918 showing the great increase in 1918. Table No. II on pages 24-27 gives the Comparative Values of Taxable and Tax-free Securities.

Table of Income Tax

The table opposite shows the amounts and rates of Income Tax on varying amounts of net income from \$2,000 to \$10,000,000. It is assumed that the individual taxpayer is entitled to \$2,000 personal exemption. Obviously income which is free from tax under the statute, such as municipal bond interest, is not considered "net income." The columns headed "Average Rate of Tax on Net Income" is a calculation of the rate at which the net income as a whole is taxed. Other rates appearing throughout the table do not constitute the tax levied upon the entire net income, but are the rates levied against the top part only of such income.

In the use of the table an allowance must, of course, be made for any items of income which are free from certain, but not all, of income tax rates. For example, dividends from domestic and certain foreign corporations are not liable for any normal tax. Also interest received from all Liberty Loan bonds is free from the normal tax and in certain cases free from the surtax. Thus the total amount of tax to be paid at any income level shown in the table will be less than the figure noted to the extent of the exemption which the taxpayer enjoys in connection with his dividend, Liberty Bond interest, etc.

This table may be used by non-resident alien individuals as to income arising within the United States by making the following adjustments: on an income of \$3,000 add \$60 to the amount of total tax; on an income of \$4,000 add \$120 to such tax; for \$5,000 add \$180; on an income of \$6,000 or over add \$240.

Table of Income Tax

The first and last columns are of particular importance. The other columns are given for statistical information and to show the method of arriving at the total.

AMOUNT OF NET INCOME	Highest Rate of Normal Tax	Amount of Normal Tax	Highest Rate of Surtax	Amount of Surtax	Highest Combined Rate of Tax	Average Rate of Tax on Net Income	AMOUNT of TOTAL TAX
\$ 2,000							\$
3,000	6%	\$ 60				2.00%	60
4,000	6	120				3.00	120
5,000	6	180				3.60	180
6,000	6	240	1%	\$ 10	7%	4.17	250
8,000	12	480	2	50	14	6.63	530
10,000	12	720	3	110	15	8.30	830
12,000	12	960	4	190	16	9.68	1,160
14,000	12	1,200	5	290	17	10.64	1,490
16,000	12	1,440	6	410	18	11.66	1,860
18,000	12	1,680	7	550	19	12.39	2,230
20,000	12	1,920	8	710	20	13.15	2,630
22,000	12	2,160	9	890	21	13.86	3,060
24,000	12	2,400	10	1,090	22	14.54	3,490
26,000	12	2,640	11	1,310	23	15.19	3,960
28,000	12	2,880	12	1,550	24	15.82	4,430
30,000	12	3,120	13	1,810	25	16.43	4,930
32,000	12	3,360	14	2,090	26	17.03	5,460
34,000	12	3,600	15	2,390	27	17.62	5,990
36,000	12	3,840	16	2,710	28	18.19	6,560
38,000	12	4,080	17	3,050	29	18.76	7,130
40,000	12	4,320	18	3,410	30	19.33	7,730
42,000	12	4,560	19	3,790	31	19.88	8,360
44,000	12	4,800	20	4,190	32	20.43	8,990
46,000	12	5,040	21	4,610	33	20.98	9,660
48,000	12	5,280	22	5,050	34	21.52	10,330
50,000	12	5,520	23	5,510	35	22.06	11,030
52,000	12	5,760	24	5,990	36	22.59	11,760
54,000	12	6,000	25	6,490	37	23.13	12,490
56,000	12	6,240	26	7,010	38	23.66	13,260

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Table of Income Tax

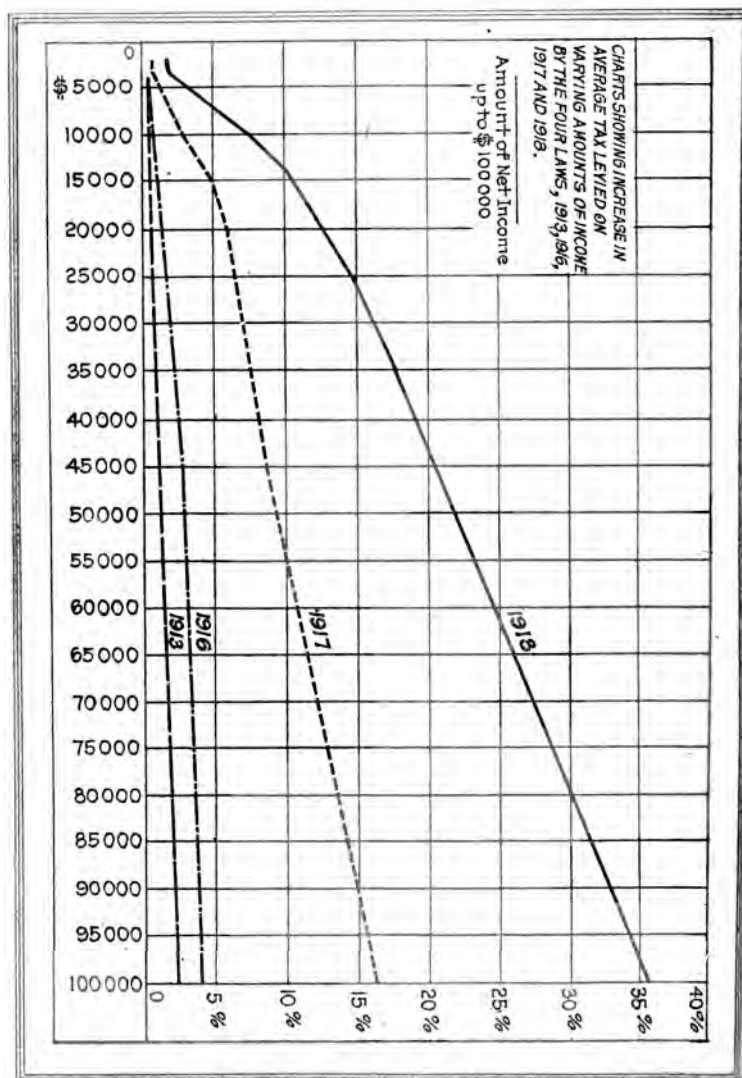
The first and last columns are of particular importance. The other columns are given for statistical information and to show the method of arriving at the total.

AMOUNT OF NET INCOME	Highest Rate of Normal Tax	Amount of Normal Tax	Highest Rate of Surtax	Amount of Surtax	Highest Combined Rate of Tax	Average Rate of Tax on Net Income	AMOUNT of TOTAL TAX
58,000	12	6,480	27	7,550	39	24.19	14,030
60,000	12	6,720	28	8,110	40	24.72	14,830
62,000	12	6,960	29	8,690	41	25.24	15,650
64,000	12	7,200	30	9,290	42	25.77	16,490
66,000	12	7,440	31	9,910	43	26.29	17,350
68,000	12	7,680	32	10,550	44	26.81	18,230
70,000	12	7,920	33	11,210	45	27.33	19,130
72,000	12	8,160	34	11,890	46	27.85	20,050
74,000	12	8,400	35	12,590	47	28.36	20,990
76,000	12	8,640	36	13,310	48	28.88	21,950
78,000	12	8,880	37	14,050	49	29.39	22,930
80,000	12	9,120	38	14,810	50	29.91	23,930
82,000	12	9,360	39	15,590	51	30.43	24,950
84,000	12	9,600	40	16,390	52	30.94	25,990
86,000	12	9,840	41	17,210	53	31.45	27,050
88,000	12	10,080	42	18,050	54	31.97	28,130
90,000	12	10,320	43	18,910	55	32.48	29,230
92,000	12	10,560	44	19,790	56	32.99	30,350
94,000	12	10,800	45	20,690	57	33.50	31,490
96,000	12	11,040	46	21,610	58	34.01	32,650
98,000	12	11,280	47	22,550	59	34.52	33,830
100,000	12	11,520	48	23,510	60	35.03	35,030
150,000	12	17,520	52	49,510	64	44.69	67,030
200,000	12	23,520	56	77,510	68	50.52	101,030
300,000	12	35,520	60	137,510	72	57.68	173,030
500,000	12	59,520	63	263,510	75	64.61	323,030
1,000,000	12	119,520	64	583,510	76	70.30	703,030
2,000,000	12	239,520	65	1,233,510	77	73.65	1,473,030
3,000,000	12	359,520	65	1,883,510	77	74.77	2,243,030
5,000,000	12	599,520	65	3,183,510	77	75.66	3,783,030
10,000,000	12	1,199,520	65	6,483,510	77	76.33	7,683,030

Example of Computing Income Tax

The following method may be used in computing the amount of income tax due on a net income of \$45,000. The individual taxpayer is assumed to have a personal exemption of \$2,000. For convenience and simplicity the normal and surtax rates have been combined in the example:

						Amount of Tax
Personal exemption of \$2,000.....						\$ —
6%	on	\$3,000	(Amt. exceeding \$ 2,000 not exceeding \$ 5,000).....			180
7%	on	1,000	(" " 5,000 " " 6,000).....			70
14%	on	2,000	(" " 6,000 " " 8,000).....			280
15%	on	2,000	(" " 8,000 " " 10,000).....			300
16%	on	2,000	(" " 10,000 " " 12,000).....			320
17%	on	2,000	(" " 12,000 " " 14,000).....			340
18%	on	2,000	(" " 14,000 " " 16,000).....			360
19%	on	2,000	(" " 16,000 " " 18,000).....			380
20%	on	2,000	(" " 18,000 " " 20,000).....			400
21%	on	2,000	(" " 20,000 " " 22,000).....			420
22%	on	2,000	(" " 22,000 " " 24,000).....			440
23%	on	2,000	(" " 24,000 " " 26,000).....			460
24%	on	2,000	(" " 26,000 " " 28,000).....			480
25%	on	2,000	(" " 28,000 " " 30,000).....			500
26%	on	2,000	(" " 30,000 " " 32,000).....			520
27%	on	2,000	(" " 32,000 " " 34,000).....			540
28%	on	2,000	(" " 34,000 " " 36,000).....			560
29%	on	2,000	(" " 36,000 " " 38,000).....			580
30%	on	2,000	(" " 38,000 " " 40,000).....			600
31%	on	2,000	(" " 40,000 " " 42,000).....			620
32%	on	2,000	(" " 42,000 " " 44,000).....			640
33%	on	1,000	(" " 44,000 " " 45,000).....			330
Total Amount of Tax.....						\$9,320



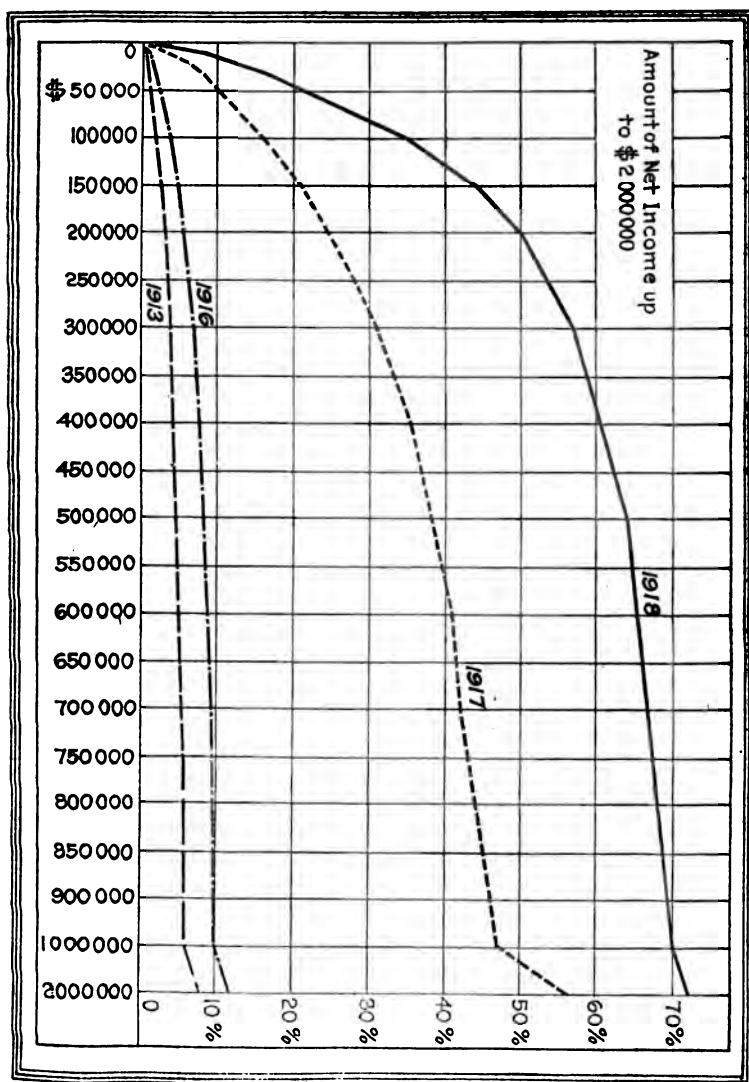


Table Showing a Comparison of the Income from Tax Free and Taxable Securities for 1918

Under the Federal Income Tax Law

The income from state, municipal and certain federal securities is free from the Federal Income Tax, and this table is included to enable the taxpayer to determine what must be the interest yield or basis of a taxable bond in order that the income therefrom, after the tax has been paid, shall equal the interest of a tax free bond. The top line of the table refers to the yields of tax free securities; the columns below show what must be the interest yield or basis of taxable securities in order that the net yield therefrom, after payment of tax, shall equal the tax free security yield shown at the top of the column. In comparing the relative advantages of taxable and tax free securities the basis of the taxable security used in the comparison is that basis which applies to the top part of a taxpayer's income. This has seemed the only practicable basis on which to make the comparison. For example: Assume an individual has a taxable income of \$150,000. The table shows a tax of 64% on the top \$50,000 of income. To net 3½% on an investment, he must obtain for this top \$50,000 of income a rate of 9.73% from taxable securities.

This table may be applied also in respect to other forms of income. It is continued showing the yield at higher ranges of income on the two following pages.

Range of Taxable Income and Rates Applying			Interest Yield (i e Basis) of Tax Free of Securities					
			3%	3½%	4%	4½%	4¾%	4½%
\$2,000 Exemption Allowed			Corresponding Return which Taxable Securities must Produce in order to make an Equivalent Return					
\$2,000.01 to	\$5,000	6%	3.19	3.72	4.26	4.82	4.65	4.79
5,000.01	6,000	7%	3.23	3.76	4.30	4.86	4.69	4.83
6,000.01	8,000	14%	3.49	4.07	4.65	4.94	5.08	5.23
8,000.01	10,000	15%	3.63	4.12	4.71	5.00	5.15	5.39
10,000.01	12,000	16%	3.67	4.17	4.76	5.06	5.21	5.36
12,000.01	14,000	17%	3.63	4.22	4.82	5.12	5.27	5.42
14,000.01	16,000	18%	3.66	4.26	4.85	5.15	5.34	5.49
16,000.01	18,000	19%	3.70	4.32	4.94	5.25	5.40	5.55
18,000.01	20,000	20%	3.75	4.37	5.00	5.31	5.46	5.62
20,000.01	22,000	21%	3.80	4.43	5.06	5.38	5.54	5.70
22,000.01	24,000	22%	3.85	4.49	5.13	5.45	5.61	5.77
24,000.01	26,000	23%	3.89	4.54	5.19	5.51	5.67	5.84
26,000.01	28,000	24%	3.94	4.60	5.25	5.58	5.74	5.92
28,000.01	30,000	25%	4.00	4.66	5.33	5.66	5.82	6.00
30,000.01	32,000	26%	4.05	4.73	5.40	5.73	5.90	6.07

Table Showing a Comparison of the Income from Tax Free and Taxable Securities for 1918

Under the Federal Income Tax Law

The income from state, municipal and certain federal securities is free from the Federal Income Tax, and this table is included to enable the taxpayer to determine what must be the interest yield or basis of a taxable bond in order that the income therefrom, after the tax has been paid, shall equal the interest of a tax free bond. The top line of the table refers to the yields of tax free securities; the columns below show what must be the interest yield or basis of taxable securities in order that the net yield therefrom, after payment of tax, shall equal the tax free security yield shown at the top of the column. In comparing the relative advantages of taxable and tax free securities the basis of the taxable security used in the comparison is that basis which applies to the top part of a taxpayer's income. This has seemed the only practicable basis on which to make the comparison. For example: Assume an individual has a taxable income of \$150,000. The table shows a tax of 64% on the top \$50,000 of income. To net 3½% on an investment, he must obtain for this top \$50,000 of income a rate of 9.73% from taxable securities.

This table may be applied also in respect to other forms of income. It is continued showing the yield at higher ranges of income on the two following pages.

Interest Yield (i.e. Basis) of Tax Free Securities

4½% | 4¾% | 4⅞% | 5% | 5⅛% | 5¼% | 5⅓% | 5½% | 5¾% | 6%

Corresponding Return which Taxable Securities must Produce in order to make an Equivalent Return.

4.92	5.06	5.18	5.22	5.45	5.58	5.72	5.85	6.11	6.23
4.96	5.10	5.24	5.28	5.51	5.65	5.78	5.91	6.18	6.45
5.23	5.52	5.67	5.81	5.96	6.10	6.25	6.40	6.69	6.98
5.44	5.59	5.74	5.88	6.03	6.18	6.32	6.47	6.76	7.06
5.50	5.65	5.80	5.95	6.10	6.25	6.40	6.55	6.85	7.14
5.57	5.72	5.87	6.02	6.17	6.32	6.47	6.63	6.98	7.23
5.64	5.79	5.95	6.10	6.25	6.40	6.55	6.70	7.00	7.31
5.71	5.86	6.02	6.17	6.32	6.43	6.64	6.79	7.10	7.41
5.77	5.98	6.09	6.25	6.40	6.56	6.72	6.87	7.18	7.50
5.85	6.01	6.17	6.22	6.43	6.64	6.80	6.96	7.27	7.59
5.98	6.09	6.25	6.41	6.57	6.73	6.89	7.05	7.37	7.69
6.00	6.16	6.32	6.49	6.60	6.81	6.97	7.14	7.46	7.79
6.08	6.24	6.40	6.57	6.73	6.90	7.06	7.23	7.56	7.89
6.15	6.33	6.50	6.67	6.83	7.00	7.16	7.33	7.66	8.00
6.24	6.41	6.58	6.75	6.92	7.09	7.26	7.43	7.77	8.11

Table Showing a Comparison of the Income from Tax Free and Taxable Securities (continued)

Range of Taxable Income and Rates Applying \$2,000 Exemption Allowed			Interest Yield (i. e. Basis) of Tax Free Securities					
			3%	3½%	4%	4½%	4¾%	4½%
			Corresponding Return which Taxable Securities must Produce in order to make an Equivalent Return.					
32,000.01	34,000	27%	4.11	4.80	5.47	5.81	5.98	6.16
34,000.01	36,000	28%	4.17	4.86	5.55	5.90	6.07	6.25
36,000.01	38,000	29%	4.23	4.93	5.63	5.98	6.16	6.34
38,000.01	40,000	30%	4.29	5.00	5.71	6.07	6.25	6.43
40,000.01	42,000	31%	4.35	5.07	5.80	6.16	6.34	6.52
42,000.01	44,000	32%	4.41	5.14	5.88	6.24	6.43	6.61
44,000.01	46,000	33%	4.47	5.22	5.97	6.34	6.52	6.71
46,000.01	48,000	34%	4.54	5.30	6.06	6.43	6.62	6.81
48,000.01	50,000	35%	4.61	5.38	6.15	6.53	6.72	6.92
50,000.01	52,000	36%	4.68	5.46	6.25	6.64	6.83	7.03
52,000.01	54,000	37%	4.76	5.55	6.35	6.75	6.95	7.15
54,000.01	56,000	38%	4.84	5.65	6.45	6.85	7.05	7.26
56,000.01	58,000	39%	4.92	5.74	6.56	6.96	7.16	7.37
58,000.01	60,000	40%	5.00	5.83	6.66	7.06	7.29	7.50
60,000.01	62,000	41%	5.08	5.93	6.78	7.20	7.41	7.62
62,000.01	64,000	42%	5.17	6.03	6.90	7.32	7.53	7.75
64,000.01	66,000	43%	5.26	6.14	7.01	7.45	7.67	7.89
66,000.01	68,000	44%	5.35	6.25	7.14	7.59	7.81	8.03
68,000.01	70,000	45%	5.45	6.37	7.27	7.72	7.94	8.17
70,000.01	72,000	46%	5.55	6.48	7.40	7.86	8.09	8.33
72,000.01	74,000	47%	5.66	6.61	7.54	8.01	8.25	8.49
74,000.01	76,000	48%	5.77	6.73	7.68	8.16	8.40	8.65
76,000.01	78,000	49%	5.88	6.86	7.84	8.33	8.57	8.82
78,000.01	80,000	50%	6.00	7.00	8.00	8.50	8.75	9.00
80,000.01	82,000	51%	6.12	7.14	8.16	8.68	8.94	9.20
82,000.01	84,000	52%	6.25	7.29	8.34	8.86	9.12	9.38
84,000.01	86,000	53%	6.38	7.45	8.51	9.04	9.31	9.58
86,000.01	88,000	54%	6.52	7.61	8.70	9.24	9.51	9.78
88,000.01	90,000	55%	6.67	7.78	8.89	9.44	9.72	10.00
90,000.01	92,000	56%	6.82	7.96	9.10	9.66	9.94	10.22
92,000.01	94,000	57%	6.98	8.15	9.31	9.89	10.18	10.47
94,000.01	96,000	58%	7.14	8.33	9.53	10.12	10.42	10.72
96,000.01	98,000	59%	7.32	8.53	9.76	10.37	10.67	10.98
98,000.01	100,000	60%	7.50	8.75	10.00	10.62	10.93	11.25
100,000.01	150,000	64%	8.33	9.73	11.10	11.80	12.15	12.50
150,000.01	200,000	68%	9.37	10.95	12.50	13.28	13.67	14.06
200,000.01	300,000	72%	10.72	12.50	14.30	15.19	15.63	16.08
300,000.01	500,000	75%	12.00	14.00	16.00	17.00	17.50	18.00
500,000.01	1,000,000	76%	12.50	14.59	16.67	17.71	18.22	18.75
1,000,000.01		77%	13.04	15.20	17.40	18.49	19.03	19.58

Table Showing a Comparison of the Income from Tax Free and Taxable Securities (continued)

Interest Yield (i. e. Basis) of Tax Free Securities

4$\frac{5}{8}$%	4$\frac{3}{4}$%	4$\frac{7}{8}$%	5%	5$\frac{1}{8}$%	5$\frac{1}{4}$%	5$\frac{3}{8}$%	5$\frac{1}{2}$%	5$\frac{3}{4}$%	6%
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Corresponding Return which Taxable Securities must Produce in order to make an Equivalent Return

6.33	6.50	6.67	6.85	7.02	7.19	7.36	7.53	7.87	8.22
6.42	6.59	6.77	6.94	7.11	7.29	7.46	7.63	7.98	8.33
6.51	6.69	6.87	7.04	7.21	7.39	7.56	7.74	8.09	8.45
6.61	6.79	6.97	7.15	7.32	7.50	7.67	7.85	8.21	8.57
6.70	6.88	7.06	7.25	7.43	7.61	7.79	7.97	8.33	8.69
6.79	6.98	7.16	7.35	7.53	7.72	7.90	8.09	8.45	8.82
6.89	7.08	7.27	7.46	7.65	7.84	8.03	8.21	8.58	8.96
7.00	7.19	7.38	7.57	7.76	7.95	8.14	8.33	8.71	9.09
7.11	7.30	7.49	7.69	7.87	8.06	8.25	8.44	8.82	9.23
7.22	7.42	7.61	7.81	7.98	8.18	8.38	8.58	8.96	9.37
7.34	7.54	7.74	7.94	8.12	8.32	8.52	8.73	9.12	9.53
7.46	7.66	7.86	8.06	8.26	8.46	8.66	8.86	9.27	9.68
7.57	7.78	7.98	8.19	8.39	8.60	8.80	9.01	9.42	9.83
7.70	7.91	8.12	8.33	8.53	8.74	8.94	9.16	9.58	10.00
7.81	8.04	8.25	8.47	8.68	8.90	9.11	9.33	9.75	10.17
7.96	8.17	8.39	8.62	8.83	9.05	9.26	9.48	9.90	10.23
8.11	8.33	8.55	8.77	8.99	9.21	9.43	9.65	10.07	10.53
8.25	8.47	8.69	8.92	9.14	9.37	9.59	9.83	10.25	10.70
8.39	8.62	8.84	9.07	9.30	9.53	9.76	10.00	10.45	10.90
8.56	8.79	9.02	9.25	9.48	9.71	9.94	10.18	10.64	11.10
8.72	8.96	9.19	9.43	9.66	9.90	10.13	10.37	10.83	11.32
8.89	9.13	9.37	9.62	9.86	10.09	10.33	10.57	11.04	11.52
9.06	9.31	9.56	9.81	10.06	10.29	10.53	10.78	11.26	11.78
9.25	9.50	9.75	10.00	10.25	10.50	10.75	11.00	11.50	12.00
9.45	9.70	9.95	10.20	10.45	10.71	10.96	11.21	11.72	12.25
9.64	9.90	10.15	10.40	10.66	10.92	11.18	11.45	11.97	12.50
9.84	10.10	10.36	10.62	10.89	11.16	11.43	11.70	12.23	12.77
10.05	10.32	10.59	10.87	11.14	11.41	11.68	11.96	12.50	13.05
10.27	10.55	10.83	11.11	11.38	11.66	11.94	12.22	12.77	13.33
10.50	10.79	11.07	11.36	11.64	11.93	12.21	12.50	13.07	13.65
10.76	11.05	11.34	11.63	11.92	12.21	12.50	12.80	13.38	13.95
11.02	11.32	11.62	11.92	12.21	12.51	12.80	13.10	13.69	14.29
11.28	11.59	11.89	12.20	12.50	12.80	13.10	13.40	14.02	14.64
11.56	11.87	12.18	12.50	12.81	13.12	13.43	13.75	14.37	15.00
12.85	13.20	13.55	13.90	14.24	14.59	14.93	15.28	15.97	16.67
14.45	14.84	15.23	15.62	16.01	16.41	16.80	17.20	17.97	18.75
16.52	16.97	17.42	17.87	18.31	18.75	19.20	19.65	20.54	21.43
18.50	19.00	19.50	20.00	20.50	21.00	21.50	22.00	23.00	24.00
19.27	19.79	20.31	20.84	21.36	21.88	22.40	22.92	23.96	25.00
20.13	20.68	21.23	21.74	22.28	22.83	23.37	23.90	25.00	26.09

Analysis and Comment

on the

Income[■] Tax for 1918

as levied by the

Revenue Act of ~~1917~~ 1918

The Sixteenth Amendment to the Federal Constitution became effective in February, 1913, and gave to Congress the power "to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States," etc. The first income tax law enacted thereafter became effective in October, 1913, and in January, 1916, the Supreme Court of the United States upheld its constitutionality in the case of *Brushaber v. Union Pacific Railroad*.

There was a new income tax law in 1916 and in October, 1917, the so-called War Revenue Act of 1917 was passed. This Act, among other things, levied a "War Income Tax," which was in addition to the taxes levied by the law of 1916. Thus, for 1917 the total rate of taxation was the combined rates of the 1916 and 1917 laws.

In February, 1919, Congress passed the Revenue Act of 1918 which levies rates of tax upon income which are much heavier than those imposed by the laws applying in 1917, or by the law of 1916. The new Act is not supplementary to the preceding laws, but takes their place, and they are repealed in so far as they affect income accruing after December 31, 1917. For Porto Rico and the Philippines the rates of the law of 1916 as amended still apply.

Individual Income Tax

**Taxable
Individuals**

1. Individuals are taxed and the provisions of the law relating to them are applied accordingly as such individuals come within either of the two named classes:

- (a) Citizens of the United States wherever residing; and Residents of the United States, no matter of what countries they may be citizens or subjects;
- (b) Non-resident aliens.

**Citizens or
Residents**

The taxable income of the first class, citizens or residents of the United States, includes that which arises from every source, within or without the United States. Taxable income of non-resident aliens includes only that which arises within the United States. As to what income "arises within the United States" reference is made subsequently.

**Non-Resident
Aliens**

**Rates of
Tax in
Previous
Years**

2. The 1913 Statute levied a basic or normal tax of one per cent. and surtaxes or so called additional taxes of from one to six per cent. on successively higher ranges of income. This made the tax under the 1913 Act, then considered heavy, range from one to seven per cent. These rates applied to income for the years, 1913, 1914 and 1915. The 1916 Act, which applied to income for that year, levied a normal tax of two per cent. and a graduated surtax of from one to thirteen per cent., making a total range of from two to fifteen per cent.

During 1917 the Law of 1916, as mentioned above, was combined with the War Income Tax Law. The Tax rate for 1917 therefore, was the sum of the rates of 1916 and 1917, the total tax range being from two to sixty-seven per cent.

**Rates of
Tax for
Years 1918**

3. The Revenue Act of 1918, just enacted, levies a new normal tax of six or twelve per cent. and a surtax

from one to sixty-five per cent., thus making great conditions to any preceding tax rate. The surtax starts one per cent. on income in excess of \$5,000 and not more than \$6,000; increases one per cent for each \$2,000 until the surtax is forty-eight per cent. for \$100,000; and then by varying degrees goes to sixty-five per cent. for \$,000,000 and over. These rates apply to the calendar year, 1918, and are payable in 1919.

A graphic presentation of the greatly increased rates of tax under the present Law, as compared with the rates applying under each of the previous three Laws, appears on the Charts, pages 22 and 23.

4. One of the distinctive features of the new Act is the plan to define the taxes to be paid in 1920 (on the basis of income for the year, 1919). This section calls for a lower normal rate,—eight or four per cent., rather than the twelve or six for the year 1918.

Rates for
Year 1919

Surtax rates are scheduled to remain unchanged. Of course as a practical matter it is difficult or even impossible to make a well considered forecast of the financial requirements of the Government for 1920 and Congress therefore, at the next session, may entirely revamp the Revenue Law including the rate schedule.

This statement of the contemplated change in tax rates is necessary for an analysis of the new so-called "dual plan" law, just enacted. Hereafter in this book, however, all discussion will concern the Act of 1918 as it relates to the taxes payable for the calendar year of 1918.

5. Under the law of 1917, the non-resident alien was not subject to the normal tax of two per cent. levied by that law, but was subject to the normal tax of the Law

Non-Resident
Aliens

of 1916. Under the Revenue Act of 1918 he is liable to both normal tax and surtaxes, the range of tax which he must pay on his American income being the same as for a citizen or resident, except that the rate of his normal tax is always twelve per cent. He does not have the advantage of the lower normal rate of six (after 1919 four) per cent. upon the first \$4,000 in excess of credits. He pays the same surtaxes as a citizen or resident. A general discussion of the rights and liabilities of the non-resident alien, for his greater convenience, will be found in a special section later in this analysis.

Increasing
Tax Rates
Apply to
Top
Income

6. In connection with the gradually increasing rates of tax, it should be recalled that each successively higher rate applies, not to all of an individual's income, but only to that particular part of his income which falls within a certain range fixed by the Statute. For example, the tax rate of sixty-eight per cent. applies to the amount of income which exceeds \$150,000 but does not exceed \$200,000, i. e., on the top \$50,000 of income. The next higher rate then applies to income falling within the next higher range fixed by the statute, and so on up.

7. Table No. 1, appearing on pages 19 and 20, shows the rates and amounts of taxes to be paid by citizens or residents on amounts of taxable income from \$2,000 to \$10,000,000. An example showing the method of computing the tax, appears on page 21.

"Normal" or
Basic Tax

8. In originally designating any income tax rate as the "normal" tax, the theory was presumably that that rate was the basic tax applied to all forms of taxable income. Exemptions were allowed in certain cases; but disregarding allowances, the rate of the "normal" tax was the basic rate levied against all taxable income, whether in one form or another, and whether it accrued to an

individual, to a corporation, or to any other person or entity. Thus income derived through the medium of corporate dividends, interest on corporate bonds, rents, dealings in securities, etc., were all alike subject to the basic tax. Originally this basic rate was one per cent., then later two per cent.

With the enactment of the War Income Tax Law of 1917, however, the term "normal" lost its original significance. Income in the form of corporate dividends became subject to a six per cent. basic tax; (the corporation itself paid the six per cent. tax on its earnings) whereas other forms of income were in reality subject to only a two per cent. basic tax.

In the Law of 1918, the basic tax is six per cent. for 1918 income and four per cent. for 1919 income. It is true that for the 1918 income, the "normal" tax is six or twelve per cent., depending upon the range of income, and four or eight per cent. for 1919; but the fact is that the basic rate for 1918 is six per cent. and four per cent. for 1919. And yet a corporation pays on its earnings, twelve per cent. for 1918 and ten per cent. for 1919 income. The reference to this subject is included because this fundamental principle underlying the original statute seems worth restating.

9. Since the enactment of the 1913 law, the matter of a personal exemption being allowed a non-resident alien has been in constant change. In 1917 the non-resident alien was favored as compared with the resident or citizen inasmuch as he was not subject to the normal tax of two per cent. levied by the War Income Tax of 1917. The Act of 1918 makes him liable to the higher normal tax of twelve per cent., as well as all surtaxes, but allows

Exemption
of
Non-Resident
Alien

him a personal exemption if the country of which he is a citizen or subject imposes an income tax and also allows a similar credit to citizens of the United States not residing in such country.

Personal
Exemption

10. Until 1917, the personal exemptions allowed were in general, \$3,000 to unmarried and \$4,000 to married persons. The War Income Tax Law of 1917 reduced these amounts to \$1,000 and \$2,000 respectively. These same figures are retained in the new law, that is, the Revenue Act of 1918 allows a personal exemption of \$1,000 to every individual who is unmarried or is married and is not living with husband or wife, or of \$2,000 if married and living with husband or wife or is the head of a family. A husband and wife living together shall receive but one personal exemption of \$2,000 against their aggregate net income. All of this exemption may be taken by either one or may be divided between them. A husband and wife not living together are entitled to the exemption allowed single persons.

Husband
and Wife

"Head of
a Family

11. The expression "head of a family," is not defined by statute, but the Treasury Department ruled in respect to the 1916 Law, that this means "a person who actually supports and maintains one or more individuals who are closely connected with him by blood relationship, relationship by marriage or by adoption and whose right to exercise family control and provide for those dependent individuals is based upon some moral or legal obligation."

Exemption
for
Dependents

12. In 1917 a further exemption of \$200 was granted for each dependent child. The new Law of 1918 does not use the word "child" but the word "person", and the word "taxpayer" instead of "parent." It provides \$200 exemp-

tion for each person dependent upon and receiving chief support from the taxpayer if under 18 years of age or incapable of self support because mentally or physically defective. The Law, however, does not specifically state, although it is doubtless so meant, that this provision shall operate only in the case of one taxpayer in the same family. In 1917 the Treasury Department ruled that the dependent must not continually make his residence elsewhere than with the taxpayer.

13. It must be remembered that this personal exemption is considered in computing the normal tax only. The surtax is levied upon amounts of taxable income between certain ranges fixed by statute without regard to personal exemption.

14. Gross income is stated to include gains, profits, income derived from every source whatsoever, and specifically from:

Gross
Income

- (a) Salaries, wages or compensation for personal service of every kind and in whatever form paid;
- (b) Professions, vocations, businesses, trade or commerce;
- (c) Sales or dealings in property, real or personal, as well as income growing out of the ownership, use or interest in such property; and
- (d) Interest, rent and dividends.

15. In ascertaining the gain derived or loss sustained from the sale or other disposition of securities, real estate or other property, acquired before March 1, 1913 (the date from which the tax applied to income under the 1913 Law), the fair market price or value of such property as of that date shall be the basis for determining the amount of gain or loss. When property has been acquired after that date, the loss or gain may be ascertained on the basis of the cost thereof or on the inven-

Calculating
Gain or
Loss

tory value providing the inventory has been taken in the manner most clearly reflecting the income and approved by the Commissioner. When property has been exchanged for other property, that taken in exchange shall be treated as cash to the equivalent of its fair market value, if there be any.

It is now provided for the first time that in the case of re-organization, merger or consolidation of a corporation, when new stock of no greater aggregate face or par value is received for the old stock or securities, no gain or loss shall be deemed to have occurred and the new stock or securities shall be treated as taking the place of the old. In case securities of a greater face or par value in the aggregate are received, the excess is to be treated as gain to the extent that the fair market value of the new stock or securities is greater than the cost (or if acquired prior to March 1, 1913, the fair market value as of that date) of the stocks or securities exchanged.

Accrued
Interest

16. It seems of practicable value to note herein in respect to "accrued interest" on bonds that, according to Treasury ruling, the owner of bonds at the time the interest becomes due and payable, should account in his return only for interest which accrued after the bonds were purchased by him. The former owner should account in his return for the interest which accrued during his ownership of the bonds.

Inventories

17. In December, 1917, the Commissioner ruled that a dealer in securities "who in his books of account regularly inventories unsold securities on hand either (a) at cost or (b) at cost or market price whichever is lower,"

may for purposes of the income, as well as excess profits taxes, make his return upon the basis upon which his accounts are kept. The Commissioner provided that detailed information would need to be submitted and that the method followed as to 1917 income, must be adhered to in subsequent years unless a different method were especially approved by him. In general, this same provision was extended to mercantile and manufacturing corporations.

So many questions arose as to the precise definition of a "dealer in securities," that the Commissioner ruled that he was a "merchant of securities, whether an individual, partnership, or corporation, with an established place of business; and whose principal business is the purchase of securities and their resale to customers, that is, one who, as a merchant, buys securities and sells them to customers, with a view to the gains and profits that may be derived therefrom." The Commissioner further ruled that taxpayers who buy and sell or hold securities for investment or speculation and not in the course of an established business, and officers of corporations or members of partnerships who in their individual capacities buy and sell securities, are not considered to be dealers in securities and therefore inventories taken by them must be at cost.

"Dealer in
Securities"

Serious question arose as to whether the inventory ruling referred to above, was in accordance with the statute. The Attorney General of the United States held, however, upon presentation of the matter to him, that the Treasury ruling was proper.

18. The 1918 Law, for the first time, includes a special inventory provision which is to the effect that when-

Inventories
1918
Law

ever in the opinion of the Commissioner the use of inventory is necessary clearly to determine the income of any taxpayer, individual, corporate or otherwise, inventory shall be taken upon such business as the Commissioner may prescribe. It is not unlikely that important Treasury rulings on this subject will be issued later.

Dividends

Dividends
Liable to
Surtax

19. The income of an individual in the form of dividends or net earnings of corporations or similar organizations is treated accordingly as the organization is or is not taxable under the corporate sections of the Law. In general, organizations are taxable if they are organized in the United States, no matter where they operate, or if they were organized in other countries, but operate in or derive income from the United States. The dividends received from such taxable organizations are not liable to any normal tax in the hands of an individual, but are liable to the surtax. The dividends paid by foreign organizations, themselves not liable to tax under the corporate sections of the law, are liable to both normal and surtax rates.

20. It is well understood that the reason dividends from organizations, themselves taxable, have not been liable to any normal tax in the hands of an individual is that such organizations already have paid the corporation tax on that part of their net earnings, distributed in the form of dividends. Until 1917, the tax on corporate net income has been at the same rate as the normal tax on individual net income. Since 1917, however, that situation has changed to the disadvantage of income in the form of corporate earnings. (This is referred to more fully in a discussion of the "basic" tax at page 32.)

21. Dividends received from organizations taxable under the corporate sections of the law, are free from normal tax when received by non-resident aliens, the same as in the case of citizens or residents. Obviously, non-resident aliens are not subject to tax on dividends received from foreign organizations which themselves do not come within the scope of the corporate provisions of the law.

Non-Resident
Aliens

22. Under the 1913 Act, dividends, if taxable at all, were taxed regardless of the time of accrual to the corporation of the profits or earnings from which such dividends were paid. The 1916 Law changed this situation. It defined dividends as including any distribution made or ordered to be made by a corporation or an association out of the earnings or profits which had accrued since March 1, 1913 (the date as of which the tax applied under the 1913 Law). The converse of this statement was said to be true by the Treasury Department, namely, that dividends were not taxable if paid out of earnings which accrued before March, 1913.

1913
Law

1916
Law

It may be added, parenthetically, that the principal provisions regarding dividends under each law are mentioned because court decisions and Treasury regulations often make reference to the former statutory provisions governing the subject.

23. In 1917, the law was again changed as to dividends. In respect to any distribution made on or after August 6, 1917, it was declared that such dividends should be deemed to have been made from the most recently accumulated undivided profits or surplus of the corporation and should constitute a part of the annual income of the person receiving the same for the year in which received. The Statute further provided, how-

1917
Law

ever, that such dividends should be taxed at the rates prescribed by law for the years in which such profits or surplus were accumulated by the corporation distributing the dividends. The provision was continued that dividends paid out of undivided surplus or profits earned prior to March 1, 1913, were free of income tax under this provision.

1918
Law

24. The Revenue Act of 1918 declares that the term "dividend" (except in connection with certain insurance companies) means any distribution made by a corporation (other than a personal service corporation) to share-holders whether in cash, property or stocks, out of earnings or profits accumulated since February 28, 1913 (the date as of which the tax applied under the 1913 Law); and any such distribution made by a personal service corporation out of earnings or profits accumulated since February 28, 1913, and prior to January 1, 1918.

25. Unless all earnings and profits have first been distributed, any distribution shall be deemed to be made from them. Such distribution made in 1918 or in any year thereafter, is held to be made from earnings or profits accumulated since February 28, 1913 (in the case of a personal service corporation, from the most recently accumulated earnings and profits). After these earnings and profits have been distributed, those accumulated before March 1, 1913, may be distributed exempt from tax.

Dividends
Received
by
Corporations

26. Dividends received by individuals, as is well understood, have at no time been subject to the normal tax. Corporations, however, under certain of the previous laws, were required to pay a corporation income tax thereon. The Act of 1918, however, changes the former

situation. Such dividends and amounts received as dividends from a personal service corporation out of taxable earnings or profits are not subject to tax in the hands of the receiving corporation. It seems that these dividends must be included in the return of net income made by the corporation, but may be classified as deductions.

27. Like the earlier laws, the Revenue Act of 1918 declares a dividend paid in stock of the corporation shall be considered income "to the amount of earnings or profits distributed." Amounts distributed in liquidation shall be treated as payments in exchange for stock or shares and any gain or profits therefrom shall be taxable as other gains or profits.

Stock
Dividends

28. There is a further provision that any stock dividend (1) received by a taxpayer between January 1, and November 1, 1918, both inclusive, or (2) bona fide authorized or declared during such period and entered on the corporation books but received by the taxpayer after November 1, 1918, and within thirty days after the passage of the Act, shall be taxed to the recipient at the rates prevailing for the years in which the corporation accumulated the earnings or profits from which such dividends were paid. The dividend, however, shall be deemed to have been paid from the most recently accumulated earnings or profits.

Between
Jan. 1 and
Nov. 1,
1918

29. The question has been raised if this provision for the taxation of stock dividends (at the rates prevailing for the year in which the corporation accumulated the earnings out of which such stock dividends were paid) might not apply also to dividends paid in cash. It will be recalled that the law was so applied in 1917. Doubt-

less, the Treasury will rule on the question, but meanwhile it may be said that the Act itself cannot be said clearly to allow the taxation of cash dividends at rates applying in previous years.

Constitution-
ality

30. There has been considerable litigation of the question if Congress, under the Constitution, has the power to place an income tax on stock dividends; that is, are stock dividends income. Thus far, this question in its broad aspect has not been decided by the United States Supreme Court.

On January 23, 1919, the United States District Court in New York, on a demurrer, rendered what was in effect a decision that stock dividends are not taxable as income. It does not seem impossible that if this view finally prevails with the United States Supreme Court, all money collected by the Government as income taxes on stock dividends under all of the previous laws, beginning in 1913, will be subject to refund to the taxpayers.

Dividends
Received
During
First
60 Days
of Taxable
Year

31. The Act of 1918 also contains a new provision which states that distribution made during the first sixty days of a "taxable year," shall be deemed to have been made from the earnings or profits of the preceding taxable years. A distribution after the first sixty days of the taxable year shall be deemed to have been made from the earnings or profits accumulated between the close of the preceding taxable year and the date of distribution, to the extent of such earnings or profits.

If the corporation books do not show the amount of such earnings or profits, the earnings or profits for the accounting period within which the distribution was made shall be deemed to have accumulated ratably during such period.

It is probable that the regulations issued by the Department in respect to this provision will make clear its practical application, which, it may be remarked, may be of some little importance to taxpayers.

32. The Statute provides that certain so-called incomes shall be exempt from the tax. This includes among other items more fully discussed later in this Analysis: **Exempt Income**

Proceeds of life insurance policies, paid upon the death of the insured, to individual beneficiaries or to the estate of the insured;

Returned premium received by the insured under life insurance, endowment, or annuity contracts, during the term, at the maturity of the term, or upon surrender of the contract;

Gifts, bequests, devises; income from these is not exempt.

Income of foreign governments, derived from investments in the United States, in stocks, bonds or other domestic securities, owned by such foreign governments, or interest on bank deposits, or income from any other source within the United States;

Amounts received through accident or health insurance or workmen's compensation Acts for personal injuries or sickness, plus damages received by suit or agreement on account of such injury or sickness;

Income derived from any public utility or the exercise of any governmental function accruing to any state or political subdivision or to any possession of the United States, etc.;

^{not} Amounts over \$3,500 received during the present war by a person in the military or naval forces of the United States, as salary or compensation from the United States for active service in such forces. The Army and Navy Nurse Corps is included in this exemption.

33. The Law of 1918 does not provide an exemption in the case of the salary of the President of the United **Salaries of Officials**

States, Judges of the Supreme and other Courts of the United States, and all other federal officers and employees of the United States. Although it is not clearly expressed in the law, it is understood that the salaries of state, county and municipal employees may not be subject to income tax. It is expected that the Treasury Department will soon give a ruling on this subject.

Municipal Bonds Exempt

Interest on
So-called
Municipal
Bonds

34. Interest derived from so-called municipal bonds, including obligations of states and their subdivisions and of the possessions of the United States, is exempt from all income tax, surtax as well as normal. It is assumed that Congress has allowed this exemption primarily for constitutional reasons, there being many decisions which indicate, if indeed they do not hold, that the taxation of municipal bonds is a burden on the municipality itself and thus repugnant to the provisions of the Constitution. The practically unanimous opinion of counsel eminent in matters of constitutional law who have expressed their view on the point is to this effect. Congress may also have deemed it unwise to put a tax upon the obligations of states, etc., as they in turn cannot similarly tax the obligations of the United States.

"Political
Subdivision"
Defined

35. It is noted in this connection that, according to Treasury ruling, "political subdivision" includes special assessment districts or divisions of a state created by proper state authority for a purpose of a public nature such as street improvements, public highways, sewerage, gas and light, and the reclamation, drainage or irrigation of public lands. In this view, interest on the obligations of the above public districts are not subject to income tax.

36. The Conference Committee of the Senate and House of Representatives inserted a provision in the Revenue Act of 1918, not included in the previous income tax laws, which requires every taxpayer to include in his return a statement of his holdings of municipal bonds of the classes mentioned, including United States Government issues, also Federal Farm Loan Act securities, and bonds issued by the War Finance Corporation. This statement shall include the number and amount of such obligations and the income received therefrom, "in such form and with such information as the Commissioner may require."

Taxpayer
Shall
Make
Return of
Non-Taxable
Bonds

37. Until the war, and in fact until after the first Liberty Loan was issued, interest upon the obligations of the United States was declared to be exempt from tax. By new provision, however, the exemption in the case of such obligations issued after September 1, 1917, was allowed only if, and to the extent, provided by the law authorizing each particular issue and supplemental Acts. This provision is embodied in the new Act. It relates to bonds of the War Finance Corporation, as well as to obligations of the United States.

United
States
Government
Obligations

38. All Liberty Bond interest is exempt from the normal tax and the Liberty 3½s (the First Loan) are exempt from the surtax as well. If, however, the bonds of this first non-taxable issue have been converted into the second, third or fourth issues, they come within the present statutory provision as to exemption applying only if and to the extent especially provided in the acts relating to such issues and supplemental acts. What these exemption provisions are, is referred to in some detail in the following paragraphs.

Liberty
Loan
Bonds

\$5,000
Exemption,
2nd, 3rd
and 4th
Loans

39. Interest derived from the converted $3\frac{1}{2}$ per cent. bonds and the bonds of the second, third and fourth Liberty Loans, either original or converted, is free from the entire normal tax in every case and may be free from surtax under certain statutory provisions. The first of these provisions is that interest on an amount not to exceed a total of \$5,000 par value of the bonds of the second, third and fourth issues, and also bonds converted into them (including converted $3\frac{1}{2}$ s) is exempt from the surtax for the entire life of the obligations. In other words, if a taxpayer owns bonds of the $4\frac{1}{4}$ per cent. issues aggregating \$5,000 par value, he will receive \$212.50 interest ($4\frac{1}{4}$ per cent. on \$5,000) which is entirely free of the income tax.

\$30,000
Exemption,
4th Loan

40. The second of these special statutory exemptions is that the interest on an amount of bonds of the Fourth Liberty Loan, the par value or principal amount of which does not exceed \$30,000, is exempt from surtax until the expiration of two years after the official termination of the war; also, the interest received for this period, beginning January 1, 1918, on an amount not exceeding \$45,000 par value of bonds of the second and third loans, and those converted into them, may be exempt from the surtax. No owner, however, of such bonds is entitled to such exemption on an amount exceeding one and one-half times the principal of bonds of the Fourth Liberty Loan originally subscribed for by him and still held at the date of his tax return. For example, if a person owned but \$10,000 of the Fourth Loan, he could thus obtain exemption from the surtax on only \$15,000 of the third loan.

\$45,000
Exemption,
2nd and
3rd Loans

\$30,000
Exemption,
1st Converted
to 4th Loan

41. The third of these special exemptions from the surtax, for the limited period described above, is through

the conversion of an amount not exceeding \$30,000 of the First Loan, the $3\frac{1}{2}$ s, into the Fourth Loan $4\frac{1}{4}$ s.

42. For the limited period (until two years after the official termination of the war) it is therefore possible to exempt from all surtax, as well as normal tax, \$110,000 of bonds, as follows (this, of course, is in addition to the First $3\frac{1}{2}$ s):

\$5,000, aggregate of the original or converted bonds of the first, second, third and fourth issues. (This \$5,000 exempt for entire life of bonds).

\$45,000, aggregate of the original or converted bonds of the second and third issues, provided the owner was the original subscriber and holds on the date of filing his tax return, \$30,000 of the original bonds of the Fourth Liberty Loan.

\$30,000, of the original bonds of the Fourth Liberty Loan.

\$30,000, of the Fourth Liberty Loan, obtained through the conversion of the First Liberty Loan $3\frac{1}{2}$ s.

\$110,000 Total.

43. It is stipulated in the law that the "information at the source" provisions, under which ownership certificates might be required in connection with the payment of interest shall not apply in the case of United States Government issues.

44. The Federal Farm Loan Act, approved July 17, 1916, "to provide capital for agricultural development," etc., authorized and made provision for Federal Land Banks, joint-stock Land Banks, and other allied agencies, and also for the issuance of Federal Farm Loan bonds. These bonds, although not the obligation of the Federal Government, are exempt from all income tax.

Federal
Farm
Loan
Bonds

Net Income

The law of 1918 defines the net income of an individual as the gross income less all the allowable deductions.

Net
Income

45. In computing the net income, no deductions in any case shall be allowed for:

Personal, living or family expenses.

Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate.

Any amount expended in restoring property or making good the exhaustion thereof for which an allowance has been made.

Premiums paid on life insurance policy covering the life of any officer or employee, or of any persons financially interested in any trade or business carried on by the taxpayer when the latter is directly or indirectly a beneficiary.

Deductions
from
Net Income

46. But the following general deductions are authorized; they include more than was allowed under the previous laws:

All necessary or ordinary expenses paid or incurred in carrying on a business or trade specifically including salaries for personal services actually rendered, also rentals or payments for continued use of the business premises or possession of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

All interest paid or accrued on indebtedness except that no deduction may be made for interest or indebtedness incurred or continued—to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917), the interest upon which is declared by law to be tax exempt. In the case of a non-resident alien individual it is the proportion of such interest which his gross income within the United States bears to his gross income from all sources.

Taxes paid or accrued, such as are imposed by the authority of the United States, except income, war profits taxes; or taxes paid by a resident of the United States to one of its possessions except income, war profits or excess profits taxes (for which satisfactory evidence must be shown); assessments against local benefits of a kind tending to increase the value of the property are not allowable

deductions. Section 222 also stipulates certain other miscellaneous and general deductions allowed on account of taxes paid. \

Losses sustained in the taxable year in trade or business and other losses not connected with the trade or business (in the case of a non-resident individual alien only property within the United States) arising from fire, storm or similar casualty, or from theft when losses are not compensated for by insurance or otherwise.

Losses sustained in any transaction entered into for profit, though not connected with the trade or business (for a non-resident alien individual, only if transactions have been within the United States), not compensated for by insurance or otherwise.

Debts ascertained to be worthless and charged off within the taxable year.

A reasonable allowance for exhaustion, wear and tear of property used in trade or business and for obsolescence.

In the case of buildings, machinery, equipment installed or acquired on or after April 6, 1917, and vessels constructed or acquired on or after that date for the transportation of men or articles contributing to the prosecution of the war there shall be allowed a reasonable deduction for amortization as to cost borne by the taxpayer, not including any other amount allowed by this law or by Act of Congress as a deduction. At any time within three years after the end of the war, there may be a redetermination, and at the request of the taxpayer, there shall be a redetermination of the tax due.

In the case of mines, oil and gas wells, other natural deposits and timber, reasonable allowance for depletion and depreciation according to the "peculiar conditions in each case" based upon cost and cost of development not otherwise deducted. In the case of properties acquired prior to March 1, 1913, the fair market value on that date would govern; as to mines and wells discovered by the taxpayer after March 1, 1913 and not acquired as result of purchase of a proven tract where the fair market value is

materially disproportionate to the cost, depletion allowance would be based on fair market value of property at date of discovery or within thirty days thereafter; all this to be governed by regulations of the Commissioner; in the case of leases, allowances are to be equitably proportioned between lessor and lessee.

Contributions made to corporations organized and operated exclusively for religious, charitable, scientific or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual or to the "Vocational Rehabilitation Fund." This allowance, however, shall not be greater than fifteen per cent. of the taxpayer's net income as computed without the benefits of this deduction. The law stipulates that such gifts shall be allowed only if "verified" under regulations prescribed by the Commissioner. Non-resident aliens are allowed deductions for only such contributions as are made to domestic corporations or to the Fund.

In the deductions above stated, excepting as may be noted, a non-resident alien individual shall be allowed these credits only if they are connected with income arising within the United States; the proper apportionment with respect to sources of income from within and without the United States shall be determined by the regulations of the Commissioner.

47. It is worth noting that in the 1918 Act, a decidedly broadened view is taken on the general subject of deductions. It is realized that bona fide losses, depreciation, etc., must necessarily be allowed before a taxpayer's real net income may be determined. When the maximum tax rate, normal and surtax, was seven per cent., as it was until 1916, it didn't matter so much if the "net income" was a fictitious rather than an accurate figure. But when the rate mounts to seventy-seven per cent., leaving but twenty-three per cent. to the taxpayer, it is perfectly

clear that that tax must be levied on a real and not a fictitious net income.

"Losses in Trade"

48. "Losses in trade" have been the subject of much controversy. The interpretation by the Treasury Department, under the 1913 Law, was that losses incurred in a business other than that of the taxpayer were not deductible in arriving at his net income even though the profits arising from similar business dealings were required to be included as taxable income. In 1916 and 1917, such losses were allowed, but only to the extent of the profits arising from like transactions.

49. The Revenue Act of 1918 does the obviously fair thing,—it allows the deduction of the full amount of realized losses (sustained through transactions, entered into for profit, other than the taxpayer's regular business) entirely without consideration of the amount of profits, if any, derived from similar sources.

50. Certain entirely new loss deductions and depreciation allowances are made in the new Statute. One of these is in respect to "net losses," sustained in the regular business of the taxpayer or from the bona fide sale of buildings, plant, equipment, etc., installed or acquired on or after April 6, 1917 and used for production contributing to the prosecution of the war. Such losses, if sustained during any "taxable year" beginning after October 31, 1918, and ending prior to January 1, 1920, may be deducted in computing the net income for the preceding taxable year; and the taxes imposed for such preceding taxable year shall be redetermined accordingly. (As a practical matter, it would seem reasonable to expect the Treasury Department, in accordance with certain

"Net
Loss"

similar statutory provisions, to allow such deductions in computing income for the year 1918). Any amount found to be due upon such redetermining shall be credited or refunded in accordance with Section 252 of the statute. If the loss exceeds the net income of the year in question, the excess shall be allowed as a credit on the net income of the succeeding year. The benefit of this deduction may be had by not only individuals but by most other taxpayers.

Claim in
Abatement
for Reduction
of
Inventory,
etc., for 1918

51. Another new feature of the present Act is the general provision whereby actual depreciation in inventory and similar capital losses, occurring during either the calendar year 1918, or 1919, may be used as a deduction in computing net income for the year 1918. The taxpayer may file a claim in abatement for a substantial loss (whether or not actually realized by sale or other disposition), which is the result (1) of material reduction (not due to temporary fluctuation) in the value of the inventory for such taxable year, or (2) of the actual payment after the close of the taxable year of rebates "in pursuance of contracts entered into during such year upon sales made during such year." Payment of this tax is not required until the claim is decided, but the taxpayer must file a bond for double the amount covered by the claim. If any amount is found to be due after the claim is decided, the taxpayer is further chargeable with interest at the rate of one per cent. per month from the time the tax would have been due, had no such claim been filed.

For 1919

52. If it is shown to the satisfaction of the Commissioner that the taxpayer has sustained a substantial loss of this character during the taxable year 1919, the amount

of such loss shall be deducted from the net income for the taxable year 1918, and the tax for such year shall be redetermined with the proper credit for refund.

53. It should also be noted that deductions from net income are allowed in the case of loss resulting from the sale of property, etc., used in aiding the prosecution of the war, and also that there is a deduction for amortization for such part of the cost as was borne by the taxpayer in providing ships, buildings, etc., and other facilities for war work, not including of course, other amounts allowed as deductions in computing net income.

54. Before 1917, credit was given for income taxes paid. In 1917, credit was not allowed for the Federal income tax paid, but an allowance was made for payment of Federal excess profits taxes. The 1918 Law does not allow either to be used as a deduction. This is a matter of real significance to many taxpayers.

Income Tax
Paid no
Longer
Deductible

55. The Revenue Act of 1918 has extended the provisions permitting the deductions of foreign taxes. It allows citizens to deduct the amount of any income, war profits or excess profits taxes paid during the year to any foreign country upon income derived therein, or to any possession of the United States; and residents to deduct the amount of such taxes paid to any possession of the United States; and resident aliens, citizens and subjects of a foreign country, to deduct the amount of such taxes on income derived therein providing his country allows a similar credit to citizens of the United States residing in said foreign country.

Foreign
Income
Taxes

This provision regarding credit for foreign taxes lays the basis for reciprocal action on the part of other coun-

tries which should be of advantage to both countries and to their respective citizens or subjects.

Estates and Trusts

56. The estate of a deceased person is treated as an entirety and is so taxed for the period of its administration or settlement. The income of estates of any kind of property appears to be likewise taxable, including income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests; also income held for future distribution under the terms of a will or trust. In many instances the practical effect of taxing an estate or trust in its entirety, rather than according to the several or individual shares therein, is to increase materially the income taxes on the estate because of the rapid progression of the surtax rates. Any income tax shall be levied against the representative of the estate or trust unless return of such income is made by the beneficiary.

57. Certain instances in which the tax is paid by the fiduciary are (1) Income received by estates of deceased persons during the period of administration or settlement; (2) Income accumulated in trust for the benefit of unborn or unascertained persons; (3) Income held for future distribution under the terms of the will or trust.

58. Income, the distribution of which is not withheld by the terms of the will or trust, whether distributed or undistributed, constitutes income to the beneficiaries and they must include it in their returns and pay the tax thereon.

There are three cases in which the tax is not paid by the fiduciary, but rather by the beneficiary on his distributive share, regardless of whether or not he has already received such shares: (1) the amount paid to him during the period of administration or settlement, (2) amount of income to be distributed to him periodically, and (3) such income as is collected by the guardian of an infant to be distributed or held according to the direction of the Court. Obviously such income is included in the returns made by the beneficiary. Presumably it must also be included in the return made by the fiduciary.

Tax Paid by
Beneficiary

59. Every fiduciary (except legally appointed receivers in possession of a part only of the property of an individual) shall make under oath, a return for the individual, estate or trust for which he acts if the income of such an individual is \$1,000 or over if unmarried, or not living with husband or wife, or \$2,000 or over if married, and living with husband or wife; or if the net income of such estate or trust is \$1,000 or over, or if the beneficiary is a non-resident alien. The items of the gross income must be given specifically with allowable deduction and credits. This return must be filed at the office of the Collector of the district where the fiduciary resides. The fiduciary must make oath that he has sufficient knowledge of the affairs of such individual, estate or trust to enable him to make the return, and that such return is true and correct to the best of his knowledge and belief. Under prescribed regulations, the return may be filed by one of two or more fiduciaries. The fiduciaries are made subject to all the provisions of the law which apply to individuals.

Return made
by Fiduciary

60. The beneficiary is allowed the personal exemption given other individuals, as well as his proportionate share of certain credits which are received by the estate; guardians or trustees are also permitted to take advantage of the personal exemption on behalf of a ward or beneficiary.

Credits
Allowed
Estates

61. Estates of deceased persons during the period of administration or settlement and trusts or estates of the same classes of persons, the income of which is not distributed annually or regularly, are allowed the same credits on the normal tax as are allowed to single persons.

62. In computing the net income such part of the gross income may be deducted as was during the taxable year paid to or permanently set aside, pursuant to the will, for the United States, any state, territory, or political subdivision, or for any corporation organized and operated exclusively for any religious, charitable or similar purpose, no part of the net earnings from which accrued to the benefit of any private stockholder, etc.

63. The amount properly paid to any beneficiary during the period of administration or settlement may be deducted from the net income of the estate.

Partnerships

64. The subject of partnerships was in somewhat of a maze from the enactment of the 1913 Act until October 3, 1917. On that date the law was so amended as to clear up much of the remaining uncertainty. The Revenue Act of 1918 is in many respects clearer still.

65. The new law requires partnerships to file returns. To File
Returns
 As partnerships, however, they are not taxed; but the members thereof pay taxes as individuals for their share of the firm's net income for the year even though that income may not be actually distributed.

66. A partnership's net income is ascertained in the same manner as an individual's. For the purpose of the normal tax, the partners shall be allowed as credits, in addition to those given him as an individual, his proportionate share of certain credits received by the partnership: Partners
Allowed
Partnership
Credits

(a) Interest upon so-called Municipal bonds, including obligations of states and their political subdivisions, and of the possessions of the United States; also interest upon the obligations of the United States, if and to the extent that such exemption be provided by the law authorizing the particular issue of securities and supplemental acts.

(b) In computing the normal tax, profits derived from dividends of corporations subject to tax under the Revenue Act, and amounts received as dividends from personal service corporations out of earnings taxable by Act of Congress.

67. Gifts to charities, etc. are not deductible for the partnership; perhaps they may be held to be deductible by the partners individually.

68. A partnership may also fix its fiscal year at a period different from the calendar year. Any return Fiscal
Year
 which a partnership may be required to make, may be calculated on this basis.

If a partnership's fiscal year is not the calendar year, then the income for the fiscal year is prorated between the two calendar years in which the fiscal year falls. For

example, if a partnership's fiscal year ends April 30, 1918, eight months would lie within the calendar year 1917, and four months within the calendar year 1918. Thus, two-thirds of the partnership profits would be assumed to have been earned in 1917, and one third in 1918. Under the statute, apparently, the partner receiving such income would pay income tax on that proportion of his partnership income which had accrued during the calendar year at the rates prevailing during that year. He would pay income taxes at the rates prevailing for the calendar year 1918 on that proportion of his partnership profits which had accrued during the calendar year 1918.

**"Personal
Service
Corporations"**

69. A new feature of the Revenue Act of 1918 is that it provides for "personal service corporations." Such a corporation is defined as one whose income is ascribed primarily to the activities of the principal owners or stockholders who are themselves regularly engaged in actively conducting the affairs of the corporation, and in which the capital of the corporation, whether invested or borrowed, is not a material income-producing factor. Foreign corporations and those where fifty per cent. or more of the gross income is derived (1) from trading as a principal, or (2) from Government contracts, are not included in this exemption.

70. The personal service corporations are not subject to the normal tax or surtax nor to the profits taxes but the individual stockholders are to be taxed in the same way as partners. So far as practicable all provisions of the Act relating to partnerships shall apply to personal service corporations and their stockholders. Such a corporation is required to make a return.

71. The law states that the term "dividend", in connection with personal service corporations, means any distribution (whether in cash, other property or stock), of the corporation made out of its earnings or profits accumulated since February 28, 1913 and prior to January 1, 1918. Dividends distributed in 1918 or thereafter, are deemed to have been made by a personal service corporation from the most recently accumulated earnings or profits.

Dividends of
Personal
Service
Corporations

Corporations Organized to Escape Tax

72. The statute contemplates a corporation formed or availed of to prevent the imposition of the surtax upon its stockholders or members, by permitting the profits of such a corporation to accumulate instead of being divided or distributed. This is a similar provision to those which have appeared heretofore and Congress has evidently kept in mind the growing popularity of incorporating estates, individuals, etc.

73. It is provided that the corporation is not liable for the tax, but the stockholders or members shall be liable in the same manner as provided for the stockholder of a personal service corporation. Deduction of the war and excess profits tax from the net income of the corporation shall be allowed before determining the proportionate share of net income accruing to each shareholder.

74. The fact that any corporation is a holding company or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business and become surplus, is stated to be prima facie evidence of a purpose to escape the surtax. The proviso is added,

however, that the mere fact of the gains and profits accumulating and becoming surplus shall not be construed as evidence of a purpose to escape the tax in such case, unless the Commissioner certifies that he believes such accumulation to be unreasonable for the purposes of the business. Upon request by the Commissioner or any collector, every corporation shall file with the official requesting the same, a statement of such gains or profits and the names and addresses of the individuals or shareholders entitled thereto and the amounts payable to each.

Non-Resident Alien Individuals

75. The basis of taxing individuals who are non-resident aliens as to the United States has undergone frequent and substantial change since the enactment of the 1913 Law. Each statute has differed in this respect. Under the 1913 law it was generally understood that interest on corporate obligations of the United States was not taxable in the hands of non-resident aliens, and foreign corporations and partnerships. It appears quite unfortunate, especially from the viewpoint of the American railroads and other corporations, that this scheme of things was ever changed. The fact is, however, that in March, 1916, the Treasury Department ruled that the income of a non-resident alien in the form of domestic corporation interest, along with other income, was taxable, beginning with the year 1916. This was stated to be by virtue of the 1913 Law. The Department announced that it had made this ruling under the authority of the Brushaber decision, although it is hardly clear from that decision that the Supreme Court had such a point in mind. Without tracing these various steps, however,

the case of the non-resident alien individual under the present law will be generally stated.

76. As has been referred to previously, one point of difference between the case of the non-resident alien and the citizen or resident of the United States, is the fact that the former is subject to a normal tax of twelve per cent. on all his taxable income, and does not have the benefit of the six per cent. rate on the first \$4,000 above credits. After 1919, the non-resident alien's normal tax rate will be eight per cent. He is subject to all the surtax.

Normal Tax
of Non-Resi-
dent Aliens

77. The gross income of a non-resident alien individual is declared to include the gross income from sources within the United States, including interest on bonds and other obligations of residents either corporate or otherwise, and dividends from corporations; he is also taxed on amounts (although paid under a contract for the sale of goods, etc.) which represent profits on the manufacture and disposition of goods within the United States. This gross income less the allowable deductions would yield his net income.

Gross Income

78. The Revenue Act of 1918 does not provide a separate list of deduction for the non-resident alien in the calculation of his net income subject to tax. In some cases he is allowed deductions under slightly different conditions from those imposed on a citizen or resident. In general, his allowable deductions are identical with those of the resident or citizen except that the non-resident alien's deductions are only in connection with income arising from a source within the United States; and they are arrived at through the "apportionment and allocation" of the deductions in connection with income

Deductions

sources within and without the United States in accordance with the regulations of the Commissioner.

79. A non-resident alien individual is allowed to deduct taxes paid or accrued during the taxable year, such as are imposed by the authority of any foreign country (except income, war profits and excess profits taxes, and taxes assessed against local benefits of a kind tending to increase the value of the property) to the extent that they are connected with income coming from a source within the United States; this, however, to be under a proper apportionment and allocation of deductions with respect to sources of income within and without the United States. (See also Section 55, above).

80. He may deduct gifts or contributions made to domestic charitable, educational or similar corporations or the Vocational Rehabilitation Fund.

81. A non-resident alien, who is the citizen or subject of a country imposing an income tax, is allowed credits for personal exemption, only if his country allows a similar credit to citizens of the United States now residing in such country.

82. The Law of 1918 requires the non-resident alien to make a return the same as any other individual having an income of either \$1,000 or \$2,000 as the case may be. In order to receive the benefit of the credits and deductions he must file a return containing such information about his income as the Commissioner deems necessary for the calculation of the deductions and credits; to receive the benefit of the personal exemption he must file a claim therefor with the withholding agent.

**Must
File
Return**

83. Under rulings by the Treasury Department, properly authorized agents within the United States may execute on behalf of nonresident alien owners the certificates required in the collection of bond interest. Such representatives need to observe carefully any regulations by the Department as to the extent of their duties. In general, however, the Department facilitates the handling of non-resident alien's affairs in this country by properly authorized agents. Fiduciaries must make returns for any non-resident alien beneficiary, stating specifically the items of the gross income and the allowable deductions and credits.

Agents May
Act for
Non-resident
Aliens

84. The following paragraphs on tax free covenants and deduction at the source contain frequent reference to matters interesting to non-resident aliens. It has not seemed practicable to attempt to segregate the provisions which affect them.

Tax-Free Covenants

85. A large proportion of the outstanding mortgages or other indentures of American corporations contains what is commonly known as the tax-free covenant. It is a provision in substance that the principal and interest of the bonds or other obligations secured thereby shall be paid without deduction for any tax or taxes which the company may be required (and in some cases, permitted) to pay or deduct therefrom under any present or future law of the United States. The weight of published opinion has been that this makes the corporation liable for the normal tax as imposed under the provisions of the 1913 and 1916 Laws, and for whatever reasons, legal or practical, corporations generally paid the normal

tax on presentation of proper certificates. As the law now stands (it has not been substantially changed from last year) it would seem logical to expect corporations in general to continue to pay for the bondholder the amount of tax which the statute declares shall be deducted at the source. What the amount of this tax is, as applied to different classes of taxpayers, is referred to subsequently.

86. Pending the enactment of the Income Tax Law of 1913, there was some discussion of this matter of tax-free covenants in corporate mortgages. The view prevailed in some quarters that corporations should be prohibited by law from making any new agreements of this sort. As then passed, the Law contained the provision of somewhat uncertain scope that "no contract entered into after this Act takes effect (shall) be valid in regard to any Federal income tax upon a person liable to such payment." There was some diversity of opinion as to whether the above quoted provision of the 1913 Law prevented corporations from including the tax-free covenant in any new mortgage or other indenture executed by them. As a consequence it has not been unusual for corporations, since the enactment of that law, to agree to pay the income tax subject to deduction at the source as and to the extent that they might lawfully do so.

1916
Law

87. The 1916 Law repealed the old statute, including the above quoted provision, and contained no prohibition against the inclusion of any tax-free covenant in corporate mortgages. That is the situation under the present law.

Deduction at the Source

88. The system of "deduction at the source" has been one of the fundamentals of this Government's income tax "machinery" since the enactment of the 1913 law. The system served a dual purpose. First, it collected the normal or basic tax levied against certain income; and secondly, it supplied information desired by the Government.

"Deduction
at the
Source"

89. With the enactment of the 1917 War Revenue Law, this system was substantially modified. Deduction at the source continued to apply in certain cases, but in large part was abolished. On the other hand, an elaborate system of information at the source was inaugurated. This supplies the Government with all of the information it received under the old "deduction at the source" plan, and much more. We thus now have the dual system of "deduction at the source" (which also supplies the essential information) and "information at the source." This system applies differently to different classes of taxpayers as is set forth in the following paragraphs.

Information
at the
Source

90. In so far as citizens or residents of the United States are concerned, deduction at the source applies only in the case of interest on obligations containing the "tax-free" covenant; in such case the tax deducted is two per cent. The balance of the tax due on such income is paid by personal return, in the customary way, to the Collector of Internal Revenue. As to the "tax-free" covenant obligations, the statute provides that deduction at the source shall apply in any case in which bonds, mortgages or similar corporate obligations con-

Deduction at
the Source
Under
Tax-free
Covenant

tain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this title upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon or to retain therefrom under any law of the United States.

The provisions above recited, which were originally included in 1917 and are now continued in substantially the same form, would seem to be a recognition by Congress of the existence of the much-used "tax-free" covenant.

Deduction
at the
Source
as to
Non-Resident
Alien

91. In the case of a non-resident alien individual, deduction at the source applies to all income arising within the United States, except only dividends of domestic corporations. The amount of tax deducted is eight per cent. except in the case of interest on "tax-free" covenant bonds and similar obligations, the tax deducted at the source is two per cent. as in the case of individual citizens or residents of the United States.

Owner of
Securities
Not
Known to
Withholding
Agent

92. For the first time there is included in the Statute, in connection with the general non-resident alien provisions, a stipulation that the Commissioner may authorize the full eight per cent. tax of 1919 to be deducted from the interest upon any securities "the owners of which are not known to the withholding agent." In respect to the provisions requiring deduction of two per cent. from interest on tax-free covenant securities received by all classes of individuals and partnerships, the law contains the further new provision that the Commissioner may authorize such two per cent. tax to be withheld if the owners of such se-

curities are not known to the withholding agent. These provisions are unusual, and it would seem advisable for paying agents to proceed cautiously until official Treasury rulings are received regarding them.

93. Deduction at the source applies to non-resident alien partnerships apparently only as to interest from "tax-free" covenant securities; the amount is two per cent. The tax is deducted at the source in the case of foreign corporations not engaged in business or trade within the United States and not having any office or place of business in this country. The tax so deducted is two per cent. in the case of interest on "tax-free" covenant securities, and ten per cent. on all other income arising within the United States.

94. Deduction at the source does not apply to any income paid domestic corporations.

95. In respect to obligations containing the "tax-free" covenant, it seems that the system of deduction at the source will apply even though the corporation should decline to recognize its covenant to pay the tax. In such a case, apparently, the paying agent would be required to withhold the tax from the interest paid the bondholder. Whatever recourse the bondholder would have would seem to be against the debtor corporation which had declined to recognize its covenant.

96. Every individual, corporation or partnership required to deduct and withhold any tax, must make returns thereof on or before March 1, of this year and pay the tax to the proper officials on or before June 15th.

Every such individual, corporation or partnership, is liable for such tax, but is indemnified against any demands or claims for the amount of any payment made

Return of
Withholding
Agent

in accordance with the requirements of the statute. The recipient must include such income (on which tax has been withheld at the source) in his return, but is allowed to credit the amount of tax withheld against the total amount of his income tax. If the recipient pays any part of this tax it shall not be recollected from the withholding agent nor shall any penalty be imposed upon the recipient of the income or the withholding agent for failure to return or pay the same unless there was fraudulent intent.

Citizens or
Residents

97. A citizen or resident, on or before February 1st, following the tax year, may claim the benefit of the personal exemption allowed him by filing an appropriate statement with the withholding agent. A non-resident alien individual may receive the benefit of the same credits (in the discretion of the Commissioner and in accordance with other provisions of the statute), by filing a similar claim with the withholding agent. Presumably, there will be Treasury Department ruling along these lines.

Information at the Source

98. "Information at the source," as a more or less independent part of the income tax administrative "machinery," was inaugurated for the first time in 1917.

A report is required as to payments of \$1,000 and more, in any taxable year, of interest, rent, salaries, wages, premiums, annuities, compensation or other fixed or determinable income. The statute provides that all persons, corporations, partnerships, no matter in what capacity they may act,—including lessees or mortgagors of real or personal property, fiduciaries, employers, (and

officers and employees of the United States having the information required) making any payments of such a character of \$1,000 or over in a year to any other person, corporations or other organization,—are called upon to report the amount of such income and the name and address of the recipient.

99. Regardless of amount, returns giving “information” may be required concerning interest paid on (1) bonds, mortgages, etc., of corporations; (2) interest upon bonds of, and dividends on the stock of foreign corporations, and interest on bonds of foreign countries (not payable in the United States) collected as matter of business by any individual, corporation or partnership.

100. When so required by the Commissioner of Internal Revenue, every individual, corporation or partnership doing business as a broker shall report the names of customers for whom business has been transacted; the broker also shall report such details as to the profits, losses or other information which the Commissioner may require in respect to each of such customers. This is to enable the Commissioner to determine, so the statute says, whether all income tax has been paid on the profits or gains of such customers.

Brokers'
Returns

101. The Commissioner of Internal Revenue may require every corporation, subject to tax hereunder, and every personal service corporation to make a return of its payments of dividends, the name and address of each stockholder and the number of shares owned by him and the amount of dividends paid him.

Stockholders'
Lists and
Dividend
Records

102. Under penalty of fine or imprisonment or both, all persons, firms, or corporations, undertaking as a

License for
Foreign
Collections

matter of business or for profit the collection of foreign payments of interest or dividends, shall obtain a license from the Commissioner of Internal Revenue and shall be subject to regulations enabling the Government to obtain the information required under the law.

Return, Assessment and Payment

Annual
Return of
Income

Individuals

Citizens or
Residents

Joint Return

103. The Revenue Act of 1918 requires a return, if the net income is \$1,000 or over in the case of unmarried persons, or married and not living with husband or wife, or \$2,000 or over in the case of married persons, living with husband or wife; it shall state the items of the gross income and the allowable deductions and credits. The Law provides, in case of a husband and wife living together and having an aggregate (one or two incomes) income of \$2,000 or over, each shall make a return unless the income of each is included in a single joint return. Apparently this joint return may be made with regard to the surtax as well as the normal tax. Heretofore, the Treasury Department has ruled that the separate incomes of husband and wife should not be combined in a return of income for the purpose of assessing the surtax.

104. Under the new Act, every individual must make a return if the income comes above the exempt amounts.

The income of a minor or incompetent if derived from a separate estate under control of a guardian, trustee or other fiduciary, must be reported by his guardian or other legal representative. While there may have been some question under the previous law as to whether a minor having no legal representative was required to make a return, it seems that the present law contemplates the

making of a return and payment of tax by such a minor without legal representative. Explanatory regulations may be issued later on this point.

105. If the taxpayer is unable (the new Law does not state for what reasons) to make his own return, it shall be made by a duly authorized agent or by the guardian or other person charged with the care of the person or property of the taxpayer.

Returns
by Agents

106. A partnership must make a return, sworn to by one of the partners, stating specifically the items of its gross income and the allowable deductions and giving the names and addresses of the individuals who would have a right to share in the net income if distributed and amount of each share.

Partnership
Return

A special income schedule has been provided for the farmer. This will include reports of income from salaries, rents, interests, sales of property, etc.

The subject of returns by estates and trusts and the like is referred to in Sections 56 to 59, inclusive; reference to returns by non-resident aliens is in Sections 82 and 83.

Accounting Period

107. Former laws required that an individual report on the basis of a calendar year even if he kept his books by a fiscal year. The Revenue Act of 1918 prescribes that he must report only on that basis on which his books are kept.

A taxpayer makes his return for the period of his "taxable" year which means his fiscal year, or the calendar year if he has not established a fiscal year. The term "fiscal year," the Treasury Department says, means

Fiscal Year

an accounting period of twelve months ending on the last day of any month other than December. No fiscal year will be recognized unless before its close it was definitely established as an accounting period by the taxpayer and his books were kept in accordance therewith. A taxpayer may have a fiscal year ending for example on June 30th, 1918 and have previously made a return for that part of the fiscal year falling in 1917. Nevertheless, he should under the new Act of 1918 make a complete return for the entire fiscal year.

108. If a taxpayer makes return for a fiscal year beginning in 1917 and ending in 1918, his tax for the first taxable year should be the sum of: (1) the same proportion of his tax for the entire period computed under the laws of 1916 as amended, and of 1917, as the period of time within the calendar year 1917 bears to the entire period; and (2) the same proportion as the tax for the entire period computed under the law of 1918 as the period in 1918 bears to the entire period. In the case of a personal service corporation only that amount given in (1) will apply.

109. Any amount paid for such fiscal year under the Act of 1916 as amended and of 1917 shall be credited towards the tax imposed by the Act of 1918. If an excess amount has been paid, the law provides for proper credit or refund. The same method of computing an income tax for 1919 is provided for a fiscal year beginning in 1918 and ending in 1919.

110. The Law directs how this different income shall be recorded on the form; and it is stated that in determining the income any deduction, exemption or credits not plainly and properly chargeable against the income

taxable at the rate for the preceding year, shall be first applied against the income for the most recent year. Any balance shall be applied against the income for the next preceding year and so on.

111. If a taxpayer, with the approval of the Commissioner changes from fiscal year to calendar year in computing his net income, he must make a separate return for the time elapsing between the close of the last fiscal year and the following December 31. If he changes from calendar year to fiscal year, a separate return must be made for the period between the close of the last calendar year and the date of the close of the fiscal year. If he changes from one fiscal year to another, a separate return must be made for the period between the close of the former fiscal year and the close of the new fiscal year. If he is making his first return, and keeps his account for a fiscal year, he must make a separate return for the period between the beginning of the calendar year in which such fiscal year ends and the end of the fiscal year. In all these cases net income shall be computed according to the period for which separate return is made, and shall be taxed according to the rate for the calendar year in which the period is included; and the personal exemption allowed shall be reduced to amounts bearing the same ratio to the full credits for such exemption as the number of months in such period bears to twelve months.

Change from
Fiscal Year
to Calendar
Year, etc.

112. If the net income of an individual and his income tax are computed on the basis of a calendar year, return shall be made on or before the fifteenth day of March; if computed on the basis of a fiscal year, return shall be

made on or before the fifteenth day of the third month following the close of the fiscal year.

Place of
Return

113. Return shall be made to the Collector for the district in which the person making the return has his legal residence or his principal place of business, or if he has no legal residence or place of business in the United States, then with the Collector of Internal Revenue at Baltimore, Maryland.

Extension of
Time to File
Return

114. In cases where good cause exists in the judgment of the Commissioner, he may grant an extension of time for filing returns. The 1913 Statute limited this extension to thirty days. Last year, on account of disturbed conditions due to the war, the extensions in many cases were very liberal. The Act of 1918 states that no such extension, except in the case of taxpayers who are abroad, shall be for more than six months. This does not mean that the Commissioner will grant a full six months extension and it is suggested, therefore, that in this respect, and in fact as to the entire question of extensions, the official rulings should be carefully observed. What provision, if any, will be made for filing tentative returns is not yet clear. Some such provision may be made for individuals as well as for corporations and other taxpayers on account of the exceptionally short period between the date of issuance of the return blanks (due to the late passage of the law) and March 15th, the date by which most taxpayers must file their returns. As usual, a collector of Internal Revenue will doubtless have authority to grant an extension of thirty days in the cases of sickness or absence.

115. It is also probable that an extension of time will be granted to non-resident aliens, foreign corporations and

American citizens in the military or naval forces for a sufficient period of time after the termination of the war.

116. Any deputy collector may, when he has reason to believe that an understatement of income has been made, require the taxpayer upon due notice to show cause why the amount of return should not be increased. Upon proof of such understatement, the collector may increase the return accordingly. The taxpayer may appeal to the Commissioner.

Understate-
ment of
Income

Provisions Relating Especially to Corporations

117. Corporate net income in the United States has been subject to tax continuously since the enactment of the so-called Corporation Excise Tax Law of 1909. In its effect that Statute levied a one per cent. tax on corporate net income; the 1916 Law raised the rate to two per cent. It was increased to six per cent. for the year 1917 and the present law raises the rate to twelve per cent. It is added parenthetically that, as is well understood, corporate income is not liable to the surtax, or so-called additional tax rates, imposed upon individual income by the 1913 Act and each of the later statutes.

Former
Corporate
Income
Tax Laws

118. The organizations taxable hereunder are divided into two classes:

- (a) Corporations or insurance companies, organized in the United States (generally referred to in these comments as domestic organizations);**
- (b) Similar organizations authorized, organized or existing under the laws of any foreign country (generally referred to as foreign organizations).**

Taxable
Organizations
Classified

119. The Revenue Act of 1918 provides that the net income of every corporation (except insurance companies under certain circumstances which will be treated under

Law of 1918
Rates

a special heading) shall be taxed at the following rates:

For the calender year 1918, twelve per cent. of the amount of net income above allowable credits; for each year thereafter, ten per cent. of such amount. For railroads under federal control under the Act of March 21, 1918, the rate of tax shall be ten per cent. for 1918 and eight per cent. for each year thereafter.

Non-Taxable Organizations 120. The following organizations are declared to be non-taxable under the law;

- (a) Labor, agricultural, or horticultural;
- (b) Mutual savings banks not having a capital stock represented by shares;
- (c) Fraternal beneficiary societies, orders, or associations, (a) operating under the lodge system or for the benefit of the members of a fraternity itself operating under the lodge system, and (b) providing for the payment of life, sick, accident, or other benefits to the members of such society, order or association or their dependents;
- (d) Domestic building and loan associations and co-operative banks without capital stock, organized and operated for mutual purposes and without profit;
- (e) Mutual benefit cemetery associations;
- (f) Farmers' or other mutual hail, cyclone or fire insurance companies, mutual ditch or irrigation companies, mutual or co-operative telephone companies, or like organizations of a purely local character, the income of which consists solely of assessments, dues and fees collected from members for the sole purpose of meeting expenses;
- (g) Farmers', fruit growers' or like associations, or co-operative societies, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds of sales less the necessary selling expense, on the basis of the quantity of produce furnished by them, or as purchasing agents for the purpose of supplying merchandise to members at cost, including the necessary expense.

- (h) Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expense, to an organization which itself is exempt from the tax imposed by this title;
- (i) Federal land banks and national farm-loan associations as provided in section 26 of the Act approved July 17, 1916, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage," etc;
- (j) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare;
- (k) Personal service corporations (except as otherwise noted herein).

121. The following additional organizations are declared to be non-taxable if no part of their net earnings accrues to any private stockholder or individual:

Other Non-
Taxable
Organizations

- (l) Corporations organized and operated exclusively for religious, charitable, scientific or educational purposes or for the prevention of cruelty to children or to animals;
- (m) Business leagues, chambers of commerce, or boards of trade not organized for profit;
- (n) Pleasure, recreation or other clubs of non-profitable purpose.

122. These organizations, while exempt from payment of tax, are not exempt from giving information at the source regarding salaries, etc., nor from filing statements regarding conditions precedent to their exemption, etc.

123. The Federal Reserve Statute exempts from taxation the capital stock and surplus of Federal Reserve Banks. The income derived from dividends on the stock of Federal Reserve Banks is also exempt. Dividends paid by member banks are, of course, subject to tax.

Federal
Reserve
Banks

**Tax Exempt
Obligations**

124. Interest upon so-called Municipal bonds, including obligations of States and their political subdivisions, and upon the obligations of the possessions of the United States, is exempt from tax in the hands of all organizations, foreign and domestic, as well as in the hands of individuals. Likewise, this exemption extends to interest upon the obligations of the Federal Government, including Liberty Bonds; this statement, of course, has application to the Corporation income tax.

125. Corporations may also have the benefit of other exemptions provided by the statute, in so far as they may be appropriate to a corporation, as, for instance, interest upon any securities issued under the provisions of the Federal Farm Loan Act.

126. The law of 1918, requires tax exempt securities to be reported as to number, amount and income by the corporation, in its returns.

**Public
Utility
Income**

127. No tax hereunder shall be levied on income derived from any public utility or from the exercise of any essential governmental function which accrues to the District of Columbia or to any State or Territory, to the Philippine Islands or Porto Rico, or to any political sub division of the foregoing. This exemption is made broad enough to apply to that portion of the income of public utilities to which any of the above-named governmental agencies may be entitled under any contract, entered into in good faith on or before September 8, 1916, for the acquisition, construction, operation or maintenance of such public utility. It seems that this would cover New York City's interest in the subway operation. Obviously, this exemption does not extend to the income of

the person or corporation making such a contract with the governmental agency.

128. Profits accruing to a corporation from the sale or other disposition of any kind of property acquired before March 1, 1913, shall be calculated on the basis of the fair market value of such property as of that date. If acquired after that date, basis of determining profit is the cost, or the inventory value if the inventory is made in accordance with the regulations. Losses resulting from similar transactions shall be calculated on the same basis. For a more detailed discussion of the computation of gain or loss and of the taking of inventory, reference is made to the appropriate sections in the Analysis relating to individuals.

Computing
Profit or
Loss on
Sales

129. The "gross income" of a corporation, with certain exceptions, is stated to be the same as that term is defined for individuals (see Section 14 above). Exception is made as to certain insurance companies to which reference is made elsewhere in this Analysis; and the gross income of a foreign corporation, as in the case of a non-resident alien individual, includes only gross income from sources within the United States, including interest on bonds and other obligations of residents, corporate or otherwise, dividends from resident corporations, and all amounts received (whether under a contract for the sale of goods or otherwise) as profits on the manufacture and disposition of goods within the United States.

Gross Income

130. The items not deductible by a corporation in computing its net income are the same as are not allowed to be deducted by an individual. The permissible deductions are very similar to those allowed individuals, partnerships, etc. and include;

Net Income
and
Deductions

All necessary and ordinary expenses paid or incurred in carrying on a business or trade, specifically including salaries for personal services actually rendered, also rentals or payments for continued use of the business premises or possession of property to which the corporation has not taken or is not taking title or to which it has no equity;

All interest paid or accrued on indebtedness except that no deductions may be made for interest on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917), the interest upon which is declared by law to be tax exempt. In the case of a foreign corporation it is the proportion of such interest which its gross income within the United States bears to gross income from all sources;

Taxes paid or accrued, such as are imposed by the authority of the United States except income and profits taxes; (as to profits taxes, however, see Section 132 herein-after); or taxes paid by a domestic corporation to one of the possessions of the United States except income or profits taxes (for which satisfactory evidence must be shown); taxes imposed by authority of any State or Territory, municipality or other taxing subdivision. Assessments against local benefits of a kind tending to increase the value of the property are not allowable as deductions. Section 238 also stipulates certain other miscellaneous and general deductions allowed on account of taxes paid;

Losses sustained in the taxable year and not compensated for by insurance or otherwise;

Debts ascertained to be worthless and charged off within the taxable year;

A reasonable allowance for exhaustion, wear and tear, of property used in trade or business and for obsolescence;

In the case of buildings, machinery, equipment installed or acquired on or after April 6, 1917, and vessels constructed or acquired on or after that date for the transportation of men or articles contributing to the prosecution of the war there shall be allowed a reasonable deduction for amortization as to cost borne by the corporation, not including

any other amount allowed by this law or by Act of Congress as a deduction. At any time within three years after the end of the war, there may be a redetermination, and at the request of the corporation, there shall be a redetermination of the tax due;

In the case of mines, oil and gas wells, other natural deposits and timber, reasonable allowance for depletion and depreciation according to the "peculiar conditions in each case" based upon cost and cost of development not otherwise deducted. In the case of properties acquired prior to March 1, 1913, the fair market value on that date would govern; as to mines and wells discovered by the taxpayer after March 1, 1913, and not acquired as result of a proven tract where the fair market value is materially disproportionate to the cost, depletion allowance would be based on fair market value of property at date of discovery or within thirty days thereafter; all this to be governed by regulations of the Commissioner; in the case of leases, allowances are to be equitably proportioned between lessor and lessee.

131. No provision is made for the deduction of charitable contributions by a corporation.

132. The following credits are allowed in computing the corporation's income tax:

Amounts received as interest upon obligations of the United States and bonds issued by the War Finance Corporation;

For a domestic corporation, amounts of any war profits and excess profits taxes imposed for the taxable year. Where a corporation makes a return for a fiscal year ending in 1918, in computing the tax on that basis, the tax computed for the entire period under the excess profits tax provisions of the 1917 Law shall be credited against the net income computed under the Income Tax Law of 1916 as amended, and of 1917; and the war profits and excess profits tax of the law of 1918 at the rates for the calendar year 1918 shall be credited against the net income computed for the entire period under the income tax law of 1918;

For a domestic corporation, \$2,000.

Salary Paid
to Employee
in Army

133. By informal ruling, October 4, 1917, the Treasury Department has held that in case a corporation continues to pay an employee his salary or a part thereof during his service in the "United States Army," this amount may be considered a necessary expense of the business and as such will be allowed as a deduction in computing the corporation's net income subject to tax.

134. In respect particularly to the deduction of interest in computing corporate net income, the statute provides that preferred stock shall not be considered interest-bearing indebtedness.

135. The law does not allow any deduction to a corporation for any tax paid pursuant to a guarantee that the interest on bonds or other indebtedness shall be free from taxation, as, for instance, under the so-called tax-free covenant in corporate mortgages.

Companies
Insurance

136. Insurance companies in addition to the deductions already stated are allowed to deduct their net addition to reserve funds required by law, and "sums other than dividends paid within the year on policy and annuity contracts." Corporations issuing life, health and accident insurance combined in one policy and issued on the weekly premium payment plan, continuing for life and not subject to cancellation, may deduct such further portion of the net addition to the reserve funds (not required by law) made within the taxable year as the Commissioner holds to be necessary for the protection of the policy holders only. The statute recites a number of provisions which apply especially to mutual fire, mutual employers' liability, mutual workmen's compensation, mutual casualty, mutual marine insurance companies and other insurance companies. Such as are

interested in these provisions at all, are interested in them and pertinent decisions and rulings to their last detail. No attempt, therefore, is made to digest these provisions herein.

Especially Regarding Foreign Organizations

137. The statute does not provide a separate list of deductions for foreign organizations authorized, organized or existing, under the laws of any foreign country. Generally speaking, the difference between the deductions allowed foreign organizations and those granted to similar domestic organizations as above discussed is that foreign organizations shall deduct only those items which have arisen in respect to their business or interests in the United States.

Deductions
Allowed
Foreign
Organisations

138. A foreign organization shall compute the amount of interest paid on its indebtedness along the same lines as laid down in respect to domestic organizations, but the foreign organization is allowed deduction of only such a proportion of that interest as the gross amount of its income on business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States. And in the case of taxes paid, there may be deducted all domestic and foreign taxes (except income, war profits and excess profits taxes paid to the United States Government, or to any foreign country, and taxes against local benefits) on property or business the income from which is subject to this tax.

Interest on
Indebtedness
of Foreign
Corporations

139. Under the 1916 Act, for the first time, the system of "deduction at the source" was applied to certain income accruing in the United States to foreign organiza-

"Deduction
at the
Source"

tions "not engaged in business or trade within the United States and not having any office or place of business therein." The law of 1918 contains a section with similar purpose.

The provisions affecting corporations and individuals are generally the same, although the rates are different. This subject has already been discussed at Sections 88-97.

140. It will be recalled that "deduction at the source" does not apply to all corporate bond interest paid to citizens and residents of the United States. If the particular bond on which interest is paid contains the so-called tax-free covenant, deduction at the source applies; otherwise it does not. But in the case of non-resident alien individuals and foreign organizations not engaged in business in this country and having no place of business here, deduction at the source applies regardless of the tax-free covenant.

Domestic
and Foreign
Corporations

It seems worth repeating that deduction at the source does not apply to all foreign organizations; it applies only to those "not engaged in business or trade within the United States and not having any office or place of business therein."

Deduction at the source does not apply to domestic organizations; thus, the tax-free covenant does not benefit organizations of the United States which hold domestic corporation bonds, etc., containing such provisions.

Corporate
Return

141. Every taxable corporation and every personal service corporation is required to make a return stating specifically the items of gross income and the allowable deductions and credits. This return must be sworn to by the president or other principal officer and by the

treasurer. In the case of a foreign corporation with no place of business in the United States, the returns should be made by its agents in the United States, if there be any. Receivers, trustees in bankruptcy and assignees must make returns for such property or business as they are operating. A corporation may make its return on either the calendar or fiscal year, as allowed the individual.

142. The Law of 1918 contains a new provision requiring consolidated returns of affiliated corporations. Two or more domestic corporations are deemed to be affiliated, (1) if one corporation owns directly or controls through closely affiliated interests, etc., all the stock, or (2) if substantially all the stock of two or more corporations is owned or controlled by the same interests.

Consolidated
Returns and
Affiliated
Corporations

In the case of consolidated returns, the total tax will be computed as a unit and then assessed on the respective affiliated corporations in such proportion as may be agreed to by them, or on the basis of the net income.

143. The returns of a corporation shall be made at the same time and in the same manner as is provided for the individual. Payment of the tax by a corporation is also subject to the same regulations as are provided for payment by an individual. Returns shall be made to the collector of the district in which is located the principal place of business or principal office or agency of the corporation, or, if it has no principal place of business or principal office or agency in the United States, then to the Collector of Internal Revenue, Baltimore, Maryland.

144. By a recent announcement, the Treasury Department permits a corporation to return the estimated tax

Preliminary
Return

and make a revised return within forty-five days. This will enable the government to collect the first installment of the tax due March 15th. If the installment exceeds the amount shown to be due by the completed return, the excess will be credited on the next payment.

Foreign
Corporations
May Make
Tentative
Return

145. The Treasury Department formerly ruled that in cases where foreign corporations or domestic corporations doing business in foreign countries, are unable to assemble their data in time to make their returns of annual income within the prescribed time, it is permissible for such corporations, upon showing of this fact, to file with the Collector of Internal Revenue a tentative return in which there shall be approximated as nearly as possible the actual business transacted during the year. In place of this tentative return, a true and accurate return shall be substituted as soon as the necessary data to make the same shall be available.

Some ruling similar to the above and along the lines of the extensions suggested in Section 114, will doubtless be made this year.

When
Returns are
Due

146. Returns are due not later than the fifteenth day of the third month after the close of the calendar or fiscal year (March 15th for the usual corporation).

General Provisions

147. Except as regards payment of the tax at the source, the tax may be paid on making the return; if not so paid, it shall be paid in four installments, each consisting of one-fourth of the total tax. The first installment shall be paid at the time of filing the return and the second, third and fourth installments, on the fifteenth day of the third, sixth and ninth months respectively,

hereafter. The time for payment of the first installment shall be postponed until the date of the expiration of a period of extension, if one can be obtained, but other installments shall not be postponed without express permission at the time of granting the extension. Provisions are made for charging interest at the rate of one-half of one per cent. per month from the time the tax is due; and if any installment be not paid the whole amount of the tax unpaid shall become due and payable on demand.

148. Returns are to be examined by the Internal Revenue Bureau as soon as possible after filing, and the proper readjustments made. If, through the negligence of the taxpayer, an understatement has been made he is liable to a penalty of five per cent. plus interest at one per cent. per month. In the case of fraud on the part of the taxpayer, the penalty is fifty per cent. in addition to certain penalties otherwise provided for by the Revised Statutes. A fine of \$1,000 (and imprisonment if the disobedience be willful) is imposed for failure to carry out any of the requirements of this law.

Penalty for
Under-
statement

149. The taxpayer is entitled, upon request, to a full written or printed receipt or receipts for payments made. Any previous tax payment in excess of the amount due may be credited on the tax now due.

Receipts

150. Aside from the usual means of paying a tax, which has been accomplished ordinarily by certified check, the statute now provides that Collectors of Internal Revenue may receive uncertified checks under regulations issued by the Treasury Department. Collectors may also receive in payment of any taxes, at par and accrued interest, certificates of indebtedness of the United

Optional
Means of
Payment

States issued under the Act of April 24, 1917, entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense," etc., also certificates of the United States issued under any subsequent Act.

1918 Law
Refund
Provisions

151. The new statute contains a much more liberal refund provision than appeared in any of the previous laws. It provides that if (under the Corporation Excise Tax Law of 1909 or the Income Tax Laws of 1913, 1916, or 1917 respectively), any income or profits tax has been paid in excess of that properly due, then, notwithstanding the pertinent provision of the Revised Statutes, (Sec. 3228) the amount of such excess will be credited against any income or profits tax due from the taxpayer under any other returns. The balance of any such excess, if any, shall be immediately refunded to the taxpayer; the application of this provision is limited to five years from the date when the return was due, unless before the expiration of such five years a claim therefor was filed by the taxpayer.

Possible
Inspection of
Returns

152. Annual returns shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and shall be open to inspection as such, but "only on the order of the President" and under regulations by the Secretary of the Treasury, etc. This language of the statute indicates that it applies to both individual and corporate returns. It is also provided by the statute that in accordance with the regulations of the Secretary of the Treasury and upon request of the Governor of a State imposing an income tax, the proper officers of such State may have access to the returns or

an abstract thereof showing the name and income of each corporation.

153. The Statute further provides that any bona fide stockholder of record owning one per cent. or more of the outstanding stock of any corporation, shall, on request, be allowed to examine the returns of any corporation and of its subsidiaries. The stockholders, however, upon heavy penalty must not disclose such information obtained in any manner "not provided by law."

154. An alphabetical list of all individuals filing returns in each district is to be open to public inspection. This information will include the addresses of taxpayers but presumably not the amount of income or tax due.

155. All Collectors of Internal Revenue and all other officers or employees of the United States are prohibited from making known any particular or fact disclosed in any income tax return, and any offense against this provision shall be a misdemeanor and shall be punishable by fine, or imprisonment, or both, and the offenders shall be dismissed from office or discharged from the Government service.

Secrecy of
Returns

Advisory Tax Board

156. An Advisory Board of six members appointed by the Commissioner with the approval of the Secretary is created by the statute. The Board has the power to summon witnesses, administer oaths, take testimony, etc. It will deal with questions regarding the interrelation and administration of the income, war profits and excess profits tax laws.

Powers of
Advisory
Board

157. Every individual who is a citizen of any possession of the United States, but not otherwise a citizen of

the United States, shall be taxed only on income from sources within the United States, and the tax shall be computed as in the case of other persons so taxable.

Porto Rico
and the
Philippine
Islands

158. In Porto Rico and the Philippine Islands, the income tax is to be levied and collected in accordance with the Act of 1916, as amended. The tax laws in force in these island possessions may be amended or repealed by their respective legislatures.

1918 Income Tax Law

Being Titles I and II and Parts of Titles XIII and XIV of the Revenue Act of 1918

In Effect February 25, 1918

AN ACT

To provide revenue, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the
United States of America in Congress assembled,*

TITLE I.—GENERAL DEFINITIONS.

Section 1. That when used in this Act—

The term "person" includes partnerships and corporations as well as individuals;

The term "corporation" includes associations, joint-stock companies, and insurance companies;

The term "domestic" when applied to a corporation or partnership means created or organized in the United States;

The term "foreign" when applied to a corporation or partnership means created or organized outside the United States;

The term "United States" when used in a geographical sense includes only the States, the Territories of Alaska and Hawaii, and the District of Columbia;

The term "Secretary" means the Secretary of the Treasury;

The term "Commissioner" means the Commissioner of Internal Revenue;

The term "collector" means collector of internal revenue;

The term "Revenue Act of 1916" means the Act entitled "An Act to increase the revenue, and for other purposes," approved September 1916;

The term "Revenue Act of 1917" means the Act entitled "An Act to provide revenue to defray war expenses, and for other purposes," approved October 3, 1917;

The term "taxpayer" includes any person, trust or estate subject to tax imposed by this Act;

The term "Government contract" means (a) a contract made with the United States, or with any department, bureau, officer, commission,

board, or agency, under the United States and acting in its behalf with any agency controlled by any of the above if the contract is for the benefit of the United States, or (b) a sub-contract made with a contractor performing such a contract if the products or services to be furnished under the subcontract are for the benefit of the United States.

The term "Government contract or contracts made between August 6, 1917, and November 11, 1918, both dates inclusive" when applied to a contract of the kind referred to in clause (a) of this paragraph, includes all such contracts which, although entered into during such period, were originally not enforceable, but which have been or may become enforceable by reason of subsequent validation in pursuance of law;

The term "military or naval forces of the United States" includes the Marine Corps, the Coast Guard, the Army Nurse Corps, Female, and the Navy Nurse Corps, Female, but this shall not be deemed to exclude other units otherwise included within such term;

The term "present war" means the war in which the United States is now engaged against the German Government.

For the purposes of this Act the date of the termination of the present war shall be fixed by proclamation of the President.

Termination
of Present
War

TITLE II.—INCOME TAX.

Part I.—General Provisions.

Definitions.

Sec. 200. That when used in this title—

Taxable
Year

The term "taxable year" means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed under section 212 or section 232. The term "fiscal year" means an accounting period of twelve months ending on the last day of any month other than December. The first taxable year, to be called the taxable year 1918, shall be the calendar year 1918 or any fiscal year ending during the calendar year 1918;

Fiduciary

The term "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person, trust or estate;

The term "withholding agent" means any person required to deduct and withhold any tax under the provisions of section 221 or section 237

Personal
Service
Corporation

The term "personal service corporation" means a corporation whose income is to be ascribed primarily to the activities of the principal owners or stockholders who are themselves regularly engaged in the active conduct of the affairs of the corporation and in which capital (whether

ted or borrowed) is not a material income-producing factor; but not include any foreign corporation, nor any corporation 50 per cent or more of whose gross income consists either (1) of gains, profits, or income derived from trading as a principal, or (2) of gains, profits, commissions, or other income, derived from a government contract or contracts made between April 6, 1917, and November 11, 1918, dates inclusive;

**Paid or
Accrued**

The term "paid," for the purposes of the deductions and credits under this title, means "paid or accrued" or "paid or incurred," and the terms "paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the net income is computed under section 212.

Dividends

Dividends.

Sec. 201. (a) That the term "dividend" when used in this title except in paragraph (10) of subdivision (a) of section 234) means any distribution made by a corporation, other than a personal service corporation, to its shareholders or members, whether in cash or in kind, property or in stock of the corporation, out of its earnings or profits accumulated since February 28, 1913, or (2) any such distribution made by a personal service corporation out of its earnings or profits accumulated since February 28, 1913, and prior to January 1, 1918.

(b) Any distribution shall be deemed to have been made from earnings or profits unless all earnings and profits have first been distributed. Any distribution made in the year 1918 or any year thereafter shall be deemed to have been made from earnings or profits accumulated since February 28, 1913, or, in the case of a personal service corporation, from the most recently accumulated earnings or profits; but any earnings or profits accumulated prior to March 1, 1913, may be distributed as stock dividends or otherwise, exempt from the tax, after the earnings and profits accumulated since February 28, 1913, have been distributed.

(c) A dividend paid in stock of the corporation shall be considered as income to the amount of the earnings or profits distributed. Amounts distributed in the liquidation of a corporation shall be treated as payments in exchange for stock or shares, and any gain or profit realized thereby shall be taxed to the distributee as other gains or profits.

**Stock
Dividends**

(d) If any stock dividend (1) is received by a taxpayer between January 1 and November 1, 1918, both dates inclusive, or (2) is during such period bona fide authorized or declared, and entered on the books of the corporation, and is received by a taxpayer after November 1, 1918, and before the expiration of thirty days after the passage of this Act, then such dividend shall, in the manner provided in Sec. 206, be taxed to the recipient at the rates prescribed by law for the years in which the corporation accumulated the earnings or profits from which such dividend was paid, but the dividend shall be deemed to have been paid from the most recently accumulated earnings or profits.

Distribution
During First
60 Days of
Taxable
Year

(e) Any distribution made during the first sixty days of any tax year shall be deemed to have been made from earnings or profits accumulated during preceding taxable years; but any distribution made during the remainder of the taxable year shall be deemed to have been made from earnings or profits accumulated between the close of the preceding taxable year and the date of distribution, to the extent of such earnings or profits, and if the books of the corporation do not show the amount of such earnings or profits, the earnings or profits for the accounting period within which the distribution was made shall be deemed to have been accumulated ratably during such period.

Basis for Determining Gain or Loss.

Computing
Profit or
Loss from
Sale, etc., of
Property

Sec. 202 (a). That for the purpose of ascertaining the gain, realized or loss sustained from the sale or other disposition of property, real, personal, or mixed, the basis shall be—

(1) In the case of property acquired before March 1, 1913, the fair market price or value of such property as of that date; and

(2) In the case of property acquired on or after that date, the cost thereof; or the inventory value, if the inventory is made in accordance with section 203.

(b) When property is exchanged for other property, the property received in exchange shall for the purpose of determining gain or loss be treated as the equivalent of cash to the amount of its fair market value, if any; but when in connection with the reorganization, merger, or consolidation of a corporation a person receives in place of stock or securities owned by him new stock or securities of no greater aggregate par or face value, no gain or loss shall be deemed to occur from the exchange, and the new stock or securities received shall be treated as taking the place of the stock, securities, or property exchanged.

When in the case of any such reorganization, merger or consolidation the aggregate par or face value of the new stock or securities received is in excess of the aggregate par or face value of the stock or securities exchanged, a like amount in par or face value of the new stock or securities received shall be treated as taking the place of the stock or securities exchanged, and the amount of the excess in par or face value shall be treated as a gain to the extent that the fair market value of the new stock or securities is greater than the cost (or if acquired prior to March 1, 1913, the fair market value as of that date) of the stock or securities exchanged.

Inventories.

Inventories

Sec. 203. That whenever in the opinion of the Commissioner the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer upon such

basis as the Commissioner, with the approval of the Secretary, may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

Net Losses.

Sec. 204(a). That as used in this section the term "net loss" refers only to net losses resulting from either (1) the operation of any business regularly carried on by the taxpayer, or (2) the bona fide sale by the taxpayer of plant, buildings, machinery, equipment or other facilities, constructed, installed or acquired by the taxpayer on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war; and when so resulting means the excess of the deductions allowed by law (excluding in the case of corporations amounts allowed as a deduction under paragraph (6) of subdivision (a), of section 234, over the sum of the gross income plus any interest received free from taxation both under this title and under Title III.

Determina-
tion of
"Net Loss"

(b) If for any taxable year beginning after October 31, 1918, and ending prior to January 1, 1920, it appears upon the production of evidence satisfactory to the Commissioner that any taxpayer has sustained a net loss, the amount of such net loss shall under regulations prescribed by the Commissioner with the approval of the Secretary be deducted from the net income of the taxpayer for the preceding taxable year; and the taxes imposed by this title and by Title III for such preceding taxable year shall be redetermined accordingly. Any amount found to be due to the taxpayer upon the basis of such redetermination shall be credited or refunded to the taxpayer in accordance with the provisions of section 252. If such net loss is in excess of the net income for such preceding taxable year, the amount of such excess shall under regulations prescribed by the Commissioner with the approval of the Secretary be allowed as a deduction in computing the net income for the succeeding taxable year.

To be De-
ducted from
Preceding or
Succeeding
Taxable
Years

(c) The benefit of this section shall be allowed to the members of a partnership and the beneficiaries of an estate or trust under regulations prescribed by the Commissioner with the approval of the Secretary.

Fiscal Year with Different Rates.

Sec. 205. (a) That if a taxpayer makes return for a fiscal year beginning in 1917 and ending in 1918, his tax under this title for the first taxable year shall be the sum of: (1) the same proportion of a tax for the entire period computed under Title I of the Revenue Act of 1916 as amended by the Revenue Act of 1917 and under Title I of the Revenue Act of 1917, which the portion of such period falling within the calendar year 1917 is of the entire period; and (2) the same proportion of a tax for the entire period computed under this title at the rates for the calendar year 1918 which the portion of such period falling within the calendar year 1918 is of the entire period: *Provided*,

Fiscal Year
1917-1918

That in the case of a personal service corporation the amount to be paid shall be only that specified in clause (1).

Any amount heretofore or hereafter paid on account of the tax imposed for such fiscal year by Title I of the Revenue Act of 1916, as amended by the Revenue Act of 1917, and by Title I of the Revenue Act of 1917, shall be credited towards the payment of the tax imposed for such fiscal year by this act, and if the amount so paid exceeds the amount of such tax imposed by this act, or in the case of a personal service corporation, the amount specified in clause (1), the excess shall be credited or refunded in accordance with the provisions of section 25.

**Fiscal
Year
1918-1919**

(b) If a taxpayer makes a return for a fiscal year beginning in 1918 and ending in 1919, the tax under this title for such fiscal year shall be the sum of: (1) the same proportion of a tax for the entire period computed under this title at the rates specified for the calendar year 1918 which the portion of such period falling within the calendar year 1918 is of the entire period, and (2) the same proportion of a tax for the entire period computed under this title at the rates specified for the calendar year 1919 which the portion of such period falling within the calendar year 1919 is of the entire period.

**Fiscal Year
of Partner-
ships**

(c) If a fiscal year of a partnership begins in 1917 and ends in 1918 or begins in 1918 and ends in 1919, then notwithstanding the provisions of subdivision (b) of section 218, (1) the rates for the calendar year during which such fiscal year begins shall apply to an amount of each partner's share of such partnership net income (determined under the law applicable to such year) equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year, and (2) the rates for the calendar year during which such fiscal year ends shall apply to an amount of each partner's share of such partnership net income (determined under the law applicable to such calendar year) equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year: *Provided*, That in the case of a personal service corporation with respect to a fiscal year beginning in 1917 and ending in 1918, the amount specified in clause (1) shall not be subject to normal tax.

Parts of Income Subject to Rates for Different Years.

**Arrangement
of Income
for Different
Years**

Sec. 206. That whenever parts of a taxpayer's income are subject to rates for different calendar years, the part subject to the rates for the most recent calendar year shall be placed in the lower brackets of the rate schedule provided in this title, the part subject to the rates for the next preceding calendar year shall be placed in the next higher brackets of the rate schedule applicable to that year, and so on until the entire net income has been accounted for. In determining the income, any deductions, exemptions or credits of a kind not plainly and properly chargeable against the income taxable at rates for a preceding year shall first be applied against the income subject to rates for the most recent calen-

lar year; but any balance thereof shall be applied against the income subject to the rates of the next preceding year or years until fully allowed.

Part II—Individuals.

Normal Tax.

Sec. 210. That, in lieu of the taxes imposed by subdivision (a) of section 1 of the Revenue Act of 1916 and by section 1 of the Revenue Act of 1917, there shall be levied, collected, and paid for each taxable year upon the net income of every individual a normal tax, at the following rates:

Normal Tax

(a) For the calendar year 1918, 12 per centum of the amount of the net income in excess of the credits provided in section 216: *Provided*, That in the case of a citizen or resident of the United States the rate upon the first \$4,000 of such excess amount shall be 6 per centum;

Normal Tax
Rates

(b) For each calendar year thereafter, 8 per centum of the amount of the net income in excess of the credits provided in section 216: *Provided*, That in the case of a citizen or resident of the United States the rate upon the first \$4,000 of such excess amount shall be 4 per centum.

Surtax

Surtax.

Sec. 211. (a) That, in lieu of the taxes imposed by subdivision (b) of section 1 of the Revenue Act of 1916 and by section 2 of the Revenue Act of 1917, but in addition to the normal tax imposed by section 210 of this Act, there shall be levied, collected, and paid for each taxable year upon the net income of every individual, a surtax equal to the sum of the following:

1 per centum of the amount by which the net income exceeds \$5,000 and does not exceed \$6,000;

Surtax Rates

2 per centum of the amount by which the net income exceeds \$6,000 and does not exceed \$8,000;

3 per centum of the amount by which the net income exceeds \$8,000 and does not exceed \$10,000;

4 per centum of the amount by which the net income exceeds \$10,000 and does not exceed \$12,000;

5 per centum of the amount by which the net income exceeds \$12,000 and does not exceed \$14,000;

6 per centum of the amount by which the net income exceeds \$14,000 and does not exceed \$16,000;

7 per centum of the amount by which the net income exceeds \$16,000 and does not exceed \$18,000;

8 per centum of the amount by which the net income exceeds \$18,000 and does not exceed \$20,000;

9 per centum of the amount by which the net income exceeds \$20,000 and does not exceed \$22,000;

10 per centum of the amount by which the net income exceeds \$22,000 and does not exceed \$24,000;

11 per centum of the amount by which the net income exceeds \$24,000 and does not exceed \$26,000;

12 per centum of the amount by which the net income exceeds \$26,000 and does not exceed \$28,000;

13 per centum of the amount by which the net income exceeds \$28,000 and does not exceed \$30,000;

14 per centum of the amount by which the net income exceeds \$30,000 and does not exceed \$32,000;

15 per centum of the amount by which the net income exceeds \$32,000 and does not exceed \$34,000;

16 per centum of the amount by which the net income exceeds \$34,000 and does not exceed \$36,000;

17 per centum of the amount by which the net income exceeds \$36,000 and does not exceed \$38,000;

18 per centum of the amount by which the net income exceeds \$38,000 and does not exceed \$40,000;

19 per centum of the amount by which the net income exceeds \$40,000 and does not exceed \$42,000;

20 per centum of the amount by which the net income exceeds \$42,000 and does not exceed \$44,000;

21 per centum of the amount by which the net income exceeds \$44,000 and does not exceed \$46,000;

22 per centum of the amount by which the net income exceeds \$46,000 and does not exceed \$48,000;

23 per centum of the amount by which the net income exceeds \$48,000 and does not exceed \$50,000;

24 per centum of the amount by which the net income exceeds \$50,000 and does not exceed \$52,000;

25 per centum of the amount by which the net income exceeds \$52,000 and does not exceed \$54,000;

26 per centum of the amount by which the net income exceeds \$54,000 and does not exceed \$56,000;

H E I N C O M E T A X L A W

27 per centum of the amount by which the net income exceeds \$56,000 and does not exceed \$58,000;

28 per centum of the amount by which the net income exceeds \$58,000 and does not exceed \$60,000;

29 per centum of the amount by which the net income exceeds \$60,000 and does not exceed \$62,000;

30 per centum of the amount by which the net income exceeds \$62,000 and does not exceed \$64,000;

31 per centum of the amount by which the net income exceeds \$64,000 and does not exceed \$66,000;

32 per centum of the amount by which the net income exceeds \$66,000 and does not exceed \$68,000;

33 per centum of the amount by which the net income exceeds \$68,000 and does not exceed \$70,000;

34 per centum of the amount by which the net income exceeds \$70,000 and does not exceed \$72,000;

35 per centum of the amount by which the net income exceeds \$72,000 and does not exceed \$74,000;

36 per centum of the amount by which the net income exceeds \$74,000 and does not exceed \$76,000;

37 per centum of the amount by which the net income exceeds \$76,000 and does not exceed \$78,000;

38 per centum of the amount by which the net income exceeds \$78,000 and does not exceed \$80,000;

39 per centum of the amount by which the net income exceeds \$80,000 and does not exceed \$82,000;

40 per centum of the amount by which the net income exceeds \$82,000 and does not exceed \$84,000;

41 per centum of the amount by which the net income exceeds \$84,000 and does not exceed \$86,000;

42 per centum of the amount by which the net income exceeds \$86,000 and does not exceed \$88,000;

43 per centum of the amount by which the net income exceeds \$88,000 and does not exceed \$90,000;

44 per centum of the amount by which the net income exceeds \$90,000 and does not exceed \$92,000;

45 per centum of the amount by which the net income exceeds \$92,000 and does not exceed \$94,000;

46 per centum of the amount by which the net income exceeds \$94,000 and does not exceed \$96,000;

47 per centum of the amount by which the net income exceeds \$96,000 and does not exceed \$98,000;

48 per centum of the amount by which the net income exceeds \$98,000 and does not exceed \$100,000;

52 per centum of the amount by which the net income exceeds \$100,000 and does not exceed \$150,000;

56 per centum of the amount by which the net income exceeds \$150,000 and does not exceed \$200,000;

60 per centum of the amount by which the net income exceeds \$200,000 and does not exceed \$300,000;

63 per centum of the amount by which the net income exceeds \$300,000 and does not exceed \$500,000;

64 per centum of the amount by which the net income exceeds \$500,000 and does not exceed \$1,000,000;

65 per centum of the amount by which the net income exceeds \$1,000,000.

Rate on Sale of Mines, etc. (b) In the case of a bona fide sale of mines, oil or gas wells, or any interest therein, where the principal value of the property has been demonstrated by prospecting or exploration and discovery work done by the taxpayer, the portion of the tax imposed by this section attributable to such sale shall not exceed 20 per centum of the selling price of such property or interest.

Net Income Defined.

Net Income Sec. 212. (a) That in the case of an individual the term "net income" means the gross income as defined in section 213, less the deductions allowed by section 214.

Computed on Basis of Accounting Period (b) The net income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year, as the case may be) in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed, or if the method employed does not clearly reflect the income, the computation shall be made upon such basis and in such manner as in the opinion of the Commissioner does clearly reflect the income. If the taxpayer's annual accounting period is other than a fiscal year as defined in section 200 or if the taxpayer has no annual accounting period or does not keep books, the net income shall be computed on the basis of the calendar year.

If a taxpayer changes his accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from one fiscal year

another, the net income shall, with the approval of the Commissioner, be computed on the basis of such new accounting period, subject to the provisions of section 226.

Gross Income Defined.

Sec. 213. That for the purposes of this title (except as otherwise provided in section 233) the term "gross income"—

**Gross
Income**

(a) Includes gains, profits, and income derived from salaries, wages, or compensation for personal service (including in the case of the President of the United States, the judges of the Supreme and inferior courts of the United States, and all other officers and employees, whether elected or appointed, of the United States, Alaska, Hawaii, or any political subdivision thereof, or the District of Columbia, the compensation received (as such), of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever. The amount of all such items shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under methods of accounting permitted under subdivision (b) of section 212, any such amounts are to be properly accounted for as of a different period; but

(b) Does not include the following items, which shall be exempt from taxation under this title:

**Items Not
Included in
Gross Income**

(1) The proceeds of life insurance policies paid upon the death of the insured to individual beneficiaries or to the estate of the insured;

(2) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;

(3) The value of property acquired by gift, bequest, devise, or descent (but the income from such property shall be included in gross income);

(4) Interest upon (a) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (b) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or (c) the obligations of the United States or its possessions; or (d) bonds issued by the War Finance Corporation: *Provided*, That every person owning any of the obligations, securities or bonds enumerated in clauses (a), (b), (c) and (d) shall, in the return required by this title, submit a statement showing the number and amount of such obligations, securities and bonds owned by him and the income received therefrom, in such form and with such information

**Taxpayer
Shall Make
Return of
Non-Taxable
Bonds**

as the Commissioner may require. In the case of obligations of the United States issued after September 1, 1917, and in the case of bonds issued by the War Finance Corporation, the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt from taxation in the hands of the taxpayer both under this title and under Title III;

(5) The income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments, or from interest on deposits in banks in the United States of moneys belonging to such foreign governments, or from any other source within the United States;

(6) Amounts received, through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received whether by suit or agreement on account of such injuries or sickness;

**Income from
Public Utility**

(7) Income derived from any public utility or the exercise of any essential governmental function and accruing to any State, Territory or the District of Columbia, or any political subdivision of a State or Territory, or income accruing to the government of any possession of the United States, or any political subdivision thereof.

Whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, prior to September 8, 1916, entered in good faith into a contract with any person, the object and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this title upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, District of Columbia, or political subdivision; but this provision is not intended to confer upon such person any financial gain or exemption or to relieve such person from the payment of a tax as provided for in this title upon the part or portion of such income to which such person is entitled under such contract;

(8) So much of the amount received during the present war by a person in the military or naval forces of the United States as salary or compensation in any form from the United States for active services in such forces, as does not exceed \$3,500.

**Gross Income
Non-resident
Aliens**

(c) In the case of non-resident alien individuals, gross income includes only the gross income from sources within the United States, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, dividends from resident corporations, and including all amounts received (although paid under a contract for the sale of goods or otherwise) representing profits on the manufacture and disposition of goods within the United States.

Deductions Allowed.

Sec. 214. (a) That in computing net income there shall be allowed as deductions:

(1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered, and including rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity;

**Deductions
in Computing
Net Income**

**Business
Expenses**

(2) All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917), the interest upon which is wholly exempt from taxation under this title as income to the taxpayer, or, in the case of a nonresident alien individual, the proportion of such interest which the amount of his gross income from sources within the United States bears to the amount of his gross income from all sources within and without the United States;

Interest

(3) Taxes paid or accrued within the taxable year imposed (a) by the authority of the United States, except income, war profits and excess-profits taxes; or (b) by the authority of any of its possessions, except the amount of income, war profits and excess-profits taxes allowed as a credit under section 222; or (c) by the authority of any State or Territory, or any county, school district, municipality, or other taxing subdivision of any State or Territory, not including those assessed against local benefits of a kind tending to increase the value of the property assessed; or (d) in the case of a citizen or resident of the United States, by the authority of any foreign country, except the amount of income, war-profits and excess-profits taxes allowed as a credit under section 222; or (e) in the case of a nonresident alien individual, by the authority of any foreign country (except income, war-profits and excess-profits taxes, and taxes assessed against local benefits of a kind tending to increase the value of the property assessed), upon property or business;

Taxes

(4) Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in trade or business;

**Losses in
Business**

(5) Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in any transaction entered into for profit, though not connected with the trade or business; but in the case of a nonresident alien individual only as to such transactions within the United States;

**Losses in
Transactions
Entered Into
for Profit**

(6) Losses sustained during the taxable year of property not connected with the trade or business (but in the case of a non-resident alien individual only property within the United States) if arising from

**Losses from
Fire, etc.**

Bad Debts

fires, storms, shipwreck, or other casualty, or from theft, and if not compensated for by insurance or otherwise;

Wear and Tear

(7) Debts ascertained to be worthless and charged off within the taxable year;

(8) A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence;

Amortization of Facilities for Carrying on the War

(9) In the case of buildings, machinery, equipment, or other facilities, constructed, erected, installed, or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war, and in the case of vessels constructed or acquired on or after such date for the transportation of articles or men contributing to the prosecution of the present war, there shall be allowed a reasonable deduction for the amortization of such part of the cost of such facilities or vessels as has been borne by the taxpayer, but not again including any amount otherwise allowed under this title or previous Acts of Congress as a deduction in computing net income. At any time within three years after the termination of the present war, the Commissioner may, and at the request of the taxpayer shall, reexamine the return, and if he then finds as a result of an appraisal or from other evidence that the deduction originally allowed was incorrect, the taxes imposed by this title and by Title III for the year or years affected shall be redetermined; and the amount of tax due upon such redetermination, if any, shall be paid upon notice and demand by the collector, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 252.

Depletion of Mines, etc.

(10) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based upon cost including cost of development not otherwise deducted: *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer's interest therein) on that date shall be taken in lieu of cost up to that date: *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based upon the fair market value of the property at the date of the discovery, or within 30 days thereafter; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the Commissioner with the approval of the Secretary. In the case of leases the deductions allowed by this paragraph shall be equitably apportioned between the lessor and the lessee;

Contributions to Religious Corporations,

(11) Contributions or gifts made within the taxable year to corporations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to

children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, or to the special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act, to an amount not in excess of 15 per centum of the taxpayer's net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner, with the approval of the Secretary. In the case of a nonresident alien individual this deduction shall be allowed only as to contributions or gifts made to domestic corporations, or to such vocational rehabilitation fund;

(12) (a) At the time of filing return for the taxable year 1918 a taxpayer may file a claim in abatement based on the fact that he has sustained a substantial loss (whether or not actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such taxable year, or from the actual payment after the close of such taxable year of rebates in pursuance of contracts entered into during such year upon sales made during such year. In such case payment of the amount of the tax covered by such claim shall not be required until the claim is decided, but the taxpayer shall accompany his claim with a bond in double the amount of the tax covered by the claim, with sureties satisfactory to the Commissioner, conditioned for the payment of any part of such tax found to be due, with interest. If any part of such claim is disallowed then the remainder of the tax due shall on notice and demand by the collector be paid by the taxpayer with interest at the rate of 1 per centum per month from the time the tax would have been due had no such claim been filed. If it is shown to the satisfaction of the Commissioner that such substantial loss has been sustained, then in computing the tax imposed by this title the amount of such loss shall be deducted from the net income. (b) If no such claim is filed, but it is shown to the satisfaction of the Commissioner that during the taxable year 1919 the taxpayer has sustained a substantial loss of the character above described then the amount of such loss shall be deducted from the net income for the taxable year 1918 and the tax imposed by this title for such year shall be redetermined accordingly. Any amount found to be due to the taxpayer upon the basis of such redetermination shall be credited or refunded to the taxpayer in accordance with the provisions of section 252.

Claim in
Abatement
For
Reduction
of Inventory,
etc., for
1918

For 1919

(b) In the case of a nonresident alien individual the deductions allowed in paragraphs (1), (4), (7), (8), (9), (10), (12), and clause (e) of paragraph (3), of subdivision (a) shall be allowed only if and to the extent that they are connected with income arising from a source within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined under rules and regulations prescribed by the Commissioner with the approval of the Secretary.

Deductions o
Non-resident
Aliens

Items Not Deductible.

**Items Not
Deductible**

Sec. 215. That in computing net income no deduction shall in any case be allowed in respect of—

- (a) Personal, living, or family expenses;
- (b) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;
- (c) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made; or
- (d) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy.

Credits Allowed.

Credits

Sec. 216. That for the purpose of the normal tax only there shall be allowed the following credits:

Dividends

(a) The amount received as dividends from a corporation which is taxable under this title upon its net income, and amounts received as dividends from a personal service corporation out of earnings or profits upon which income tax has been imposed by act of Congress;

**Interest on
Government
Bonds, etc.**

(b) The amount received as interest upon obligations of the United States and bonds issued by the War Finance Corporation, which is included in gross income under section 213;

**Personal
Exemptions**

(c) In the case of a single person, a personal exemption of \$1,000, or in the case of the head of a family or a married person living with husband or wife, a personal exemption of \$2,000. A husband and wife living together shall receive but one personal exemption of \$2,000 against their aggregate net income; and in case they make separate returns, the personal exemption of \$2,000 may be taken by either or divided between them;

Dependents

(d) \$200 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer, if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

**Non-resident
Aliens**

(e) In the case of a nonresident alien individual who is a citizen or subject of a country which imposes an income tax, the credits allowed in subdivisions (c) and (d) shall be allowed only if such country allows a similar credit to citizens of the United States not residing in such country.

Nonresident Aliens—Allowance of Deductions and Credits.

Sec. 217. That a nonresident alien individual shall receive the benefit of the deductions and credits allowed in this title only by filing or causing to be filed with the collector a true and accurate return of his total income received from all sources corporate or otherwise in the United States, in the manner prescribed by this title, including therein all the information which the Commissioner may deem necessary for the calculation of such deductions and credits; *Provided*, That the benefit of the credits allowed in subdivisions (c) and (d) of section 216 may, in the discretion of the Commissioner, and except as otherwise provided in subdivision (e) of that section, be received by filing a claim therefor with the withholding agent. In case of failure to file a return, the collector shall collect the tax on such income, and all property belonging to such nonresident alien individual shall be liable to distraint for the tax.

**Non-resident
Aliens
to File
Return**

Partnerships and Personal Service Corporations.

Sec. 218. (a) That individuals carrying on business in partnership shall be liable for income tax only in their individual capacity. There shall be included in computing the net income of each partner his distributive share, whether distributed or not, of the net income of the partnership for the taxable year, or, if his net income for such taxable year is computed upon the basis of a period different from that upon the basis of which the net income of the partnership is computed, then his distributive share of the net income of the partnership for any accounting period of the partnership ending within the fiscal or calendar year upon the basis of which the partner's net income is computed.

Partnerships

The partner shall, for the purpose of the normal tax, be allowed as credits, in addition to the credits allowed to him under section 216, his proportionate share of such amounts specified in subdivisions (a) and (b) of section 216 as are received by the partnership.

(b) If a fiscal year of a partnership ends during a calendar year for which the rates of tax differ from those for the preceding calendar year, then (1) the rates for such preceding calendar year shall apply to an amount of each partner's share of such partnership net income equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year, and (2) the rates for the calendar year during which such fiscal year ends shall apply to the remainder.

(c) In the case of an individual member of a partnership which makes return for a fiscal year beginning in 1917 and ending in 1918, his proportionate share of any excess profits tax imposed upon the partnership under the Revenue Act of 1917 with respect to that part of such fiscal year falling in 1917, shall, for the purpose of determining the tax imposed by this title, be credited against that portion of the net income embraced in his personal return for the taxable year 1918 to which the rates for 1917 apply.

**Fiscal Year
Beginning in
1917 and
Ending in
1918**

(d) The net income of the partnership shall be computed in the same manner and on the same basis as provided in section 212, except that the deduction provided in paragraph (11) of subdivision (a) of section 214 shall not be allowed.

Personal
Service
Corporation

(e) Personal service corporations shall not be subject to taxation under this title, but the individual stockholders thereof shall be taxed in the same manner as the members of partnerships. All the provisions of this title relating to partnerships and the members thereof shall so far as practicable apply to personal service corporations and the stockholders thereof: *Provided*, That for the purpose of this subdivision amounts distributed by a personal service corporation during its taxable year shall be accounted for by the distributees; and any portion of the net income remaining undistributed at the close of its taxable year shall be accounted for by the stockholders of such corporation at the close of its taxable year in proportion to their respective shares.

Estates and Trusts.

Estates and
Trusts Sub-
ject to
Normal and
Surtax

Sec. 219. (a) That the tax imposed by sections 210 and 211 shall apply to the income of estates or of any kind of property held in trust, including—

(1) Income received by estates of deceased persons during the period of administration or settlement of the estate;

(2) Income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests;

(3) Income held for future distribution under the terms of the will or trust; and

(4) Income which is to be distributed to the beneficiaries periodically, whether or not at regular intervals, and the income collected by a guardian of an infant to be held or distributed as the court may direct.

Fiduciary to
Make Return

(b) The fiduciary shall be responsible for making the return of income for the estate or trust for which he acts. The net income of the estate or trust shall be computed in the same manner and on the same basis as provided in section 212, except that there shall also be allowed as a deduction (in lieu of the deduction authorized by paragraph (11) of subdivision (a) of section (214) any part of the gross income which, pursuant to the terms of the will or deed creating the trust, is during the taxable year paid to or permanently set aside for the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, or any corporation organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual; and in cases under paragraph (4) of subdivision (a) of this section the fiduciary shall include in the return a statement of each

beneficiary's distributive share of such net income, whether or not distributed before the close of the taxable year for which the return is made.

(c) In cases under paragraph (1), (2), or (3) of subdivision (a) the tax shall be imposed upon the net income of the estate or trust and shall be paid by the fiduciary, except that in determining the net income of the estate of any deceased person during the period of administration or settlement there may be deducted the amount of any income properly paid or credited to any legatee, heir or other beneficiary. In such cases the estate or trust shall, for the purpose of the normal tax, be allowed the same credits as are allowed to single persons under section 216.

**Tax Paid by
Fiduciary**

(d) In cases under paragraph (4) of subdivision (a), and in the case of any income of an estate during the period of administration or settlement permitted by subdivision (c) to be deducted from the net income upon which tax is to be paid by the fiduciary, the tax shall not be paid by the fiduciary, but there shall be included in computing the net income of each beneficiary his distributive share, whether distributed or not, of the net income of the estate or trust for the taxable year, or, if his net income for such taxable year is computed upon the basis of a period different from that upon the basis of which the net income of the estate or trust is computed, then his distributive share of the net income of the estate or trust for any accounting period of such estate or trust ending within the fiscal or calendar year upon the basis of which such beneficiary's net income is computed. In such cases the beneficiary shall, for the purpose of the normal tax, be allowed as credits in addition to the credits allowed to him under section 216, his proportionate share of such amounts specified in subdivision (a) and (b) of section 216 as are received by the estate or trust.

**Tax
Paid by
Beneficiary**

Profits of Corporations Taxable to Stockholders.

Sec. 220. That if any corporation, however created or organized, is formed or availed of for the purpose of preventing the imposition of the surtax upon its stockholders or members through the medium of permitting its gains and profits to accumulate instead of being divided or distributed, such corporation shall not be subject to the tax imposed by section 230, but the stockholders or members thereof shall be subject to taxation under this title in the same manner as provided in subdivision (e) of section 218 in the case of stockholders of a personal service corporation, except that the tax imposed by Title III shall be deducted from the net income of the corporation before the computation of the proportionate share of each stockholder or member. The fact that any corporation is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a purpose to escape the surtax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the tax in such case unless the Commissioner certifies that in his opinion such accumulation is unreason-

**Corporation
Formed for
the Purpose
of Escaping
the Surtax**

able for the purposes of the business. When requested by the Commissioner, or any collector, every corporation shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed, and of the amounts that would be payable to each.

Payment of Tax at Source.

**Deduction
at the
Service
as to Non-
Resident
Aliens**

Sec. 221. (a) That all individuals, corporations and partnerships, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the United States, having the control, receipt, custody, disposal, or payment, of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income, of any nonresident alien individual (other than income received as dividends from a corporation which is taxable under this title upon its net income) shall (except in the cases provided for in subdivision (b) and except as otherwise provided in regulations prescribed by the Commissioner under section 217) deduct and withhold from such annual or periodical gains, profits, and income a tax equal to 8 per centum thereof; *Provided*, That the Commissioner may authorize such tax to be deducted and withheld from the interest upon any securities the owners of which are not known to the withholding agent.

**Bonds with
Tax-free
Clause**

(b) In any case where bonds, mortgages, or deeds of trust, or other similar obligations of a corporation contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this title upon the obligee, or to reimburse the obligee for any portion of the tax, or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon or to retain therefrom under any law of the United States, the obligor shall deduct and withhold a tax equal to 2 per centum of the interest upon such bonds, mortgages, deeds of trust, or other obligations, whether such interest is payable annually or at shorter or longer periods and whether payable to a nonresident alien individual or to an individual citizen or resident of the United States or to a partnership; *Provided*, That the Commissioner may authorize such tax to be deducted and withheld in the case of interest upon any such bonds, mortgages, deeds of trust or other obligations, the owners of which are not known to the withholding agent. Such deduction and withholding shall not be required in the case of a citizen or resident entitled to receive such interest, if he files with the withholding agent on or before February 1, a signed notice in writing claiming the benefit of the credits provided in subdivisions (c) and (d) of section 216; nor in the case of a nonresident alien individual if so provided for in regulations prescribed by the Commissioner under section 217.

**Withholding
Agent to
Make Return**

(c) Every individual, corporation, or partnership required to deduct and withhold any tax under this section shall make return thereof on

or before March first of each year and shall on or before June 15th pay the tax to the official of the United States Government authorized to receive it. Every such individual, corporation, or partnership is hereby made liable for such tax and is hereby indemnified against the claims and demands of any individual, corporation, or partnership for the amount of any payments made in accordance with the provisions of this section.

(d) Income upon which any tax is required to be withheld at the source under this section shall be included in the return of the recipient of such income, but any amount of tax so withheld shall be credited against the amount of income tax as computed in such return.

(e) If any tax required under this section to be deducted and withheld is paid by the recipient of the income, it shall not be re-collected from the withholding agent; nor in cases in which the tax is so paid shall any penalty be imposed upon or collected from the recipient of the income or the withholding agent for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

Credit for Taxes.

Sec. 222. (a) That the tax computed under Part II of this title shall be credited with:

(1) In the case of a citizen of the United States, the amount of any income, war-profits and excess-profits taxes paid during the taxable year to any foreign country, upon income derived from sources therein, or to any possession of the United States; and

(2) In the case of a resident of the United States, the amount of any such taxes paid during the taxable year to any possession of the United States; and

(3) In the case of an alien resident of the United States who is a citizen or subject of a foreign country, the amount of any such taxes paid during the taxable year to such country, upon income derived from sources therein, if such country, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

(4) In the case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the partnership or the estate or trust paid during the taxable year to a foreign country or to any possession of the United States, as the case may be.

(b) If accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, or if any tax paid is refunded in whole or in part, the taxpayer shall notify the Commissioner who shall redetermine the amount of the tax due under Part II of this title for the year or years affected, and the amount of tax due upon such redetermination, if

**Credit for
Taxes Paid
to a Foreign
Country, etc.**

**Commissioner
to Redeter-
mine Accrued
Taxes, etc.**

any, shall be paid by the taxpayer upon notice and demand by the collector, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 2. In the case of such a tax accrued but not paid, the Commissioner as a condition precedent to the allowance of this credit may require the taxpayer to give a bond with sureties satisfactory to and to be approved by the Commissioner in such penal sum as the Commissioner may require, conditioned for the payment by the taxpayer of any amount of tax found due upon any such redetermination; and the bond herein prescribed shall contain such further conditions as the Commissioner may require.

(c) These credits shall be allowed only if the taxpayer furnish evidence satisfactory to the Commissioner showing the amount of income derived from sources within such foreign country or such possession of the United States, and all other information necessary for the computation of such credits.

Individual Returns.

Returns

Individual

Sec. 223. That every individual having a net income for the taxable year of \$1,000 or over if single or if married and not living with husband or wife, or of \$2,000 or over if married and living with husband or wife, shall make under oath a return stating specifically the items of his gross income and the deductions and credits allowed by this title. If a husband and wife living together have an aggregate net income of \$2,000 or over, each shall make such a return unless the income of each is included in a single joint return.

If the taxpayer is unable to make his own return, the return shall be made by a duly authorized agent or by the guardian or other person charged with the care of the person or property of such taxpayer.

Partnership Returns.

Partnership

Sec. 224. That every partnership shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowed by this title, and shall include in the return the names and addresses of the individuals who would be entitled to share in the net income if distributed and the amount of the distributive share of each individual. The return shall be sworn to by any one of the partners.

Fiduciary Returns.

Fiduciary

Sec. 225. That every fiduciary (except receivers appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for the individual, estate or trust for which he acts (1) if the net income of such individual is \$1,000 or over if single or if married and not living with husband or wife, or \$2,000 or over if married and living with husband or wife, or (2) if the net income of such estate or trust is \$1,000 or over or if any beneficiary

of such estate or trust is a nonresident alien, stating specifically the items of the gross income and the deductions and credits allowed by this title. Under such regulations as the Commissioner with the approval of the Secretary may prescribe, a return made by one of two or more joint fiduciaries and filed in the office of the collector of the district where such fiduciary resides shall be a sufficient compliance with the above requirement. The fiduciary shall make oath that he has sufficient knowledge of the affairs of such individual, estate or trust to enable him to make the return, and that the same is, to the best of his knowledge and belief, true and correct.

Fiduciaries required to make returns under this Act shall be subject to all the provisions of this Act which apply to individuals.

Returns When Accounting Period Changed.

Sec. 226. That if a taxpayer, with the approval of the Commissioner, changes the basis of computing net income from fiscal year to calendar year a separate return shall be made for the period between the close of the last fiscal year for which return was made and the following December 31. If the change is from calendar year to fiscal year, a separate return shall be made for the period between the close of the last calendar year for which return was made and the date designated as the close of the fiscal year. If the change is from one fiscal year to another fiscal year a separate return shall be made for the period between the close of the former fiscal year and the date designated as the close of the new fiscal year. If a taxpayer making his first return for income tax keeps his accounts on the basis of a fiscal year he shall make a separate return for the period between the beginning of the calendar year in which such fiscal year ends and the end of such fiscal year.

Changes in
Accounting
Period

In all of the above cases the net income shall be computed on the basis of such period for which separate return is made, and the tax shall be paid thereon at the rate for the calendar year in which such period is included; and the credits provided in subdivisions (c) and (d) of section 216 shall be reduced respectively to amounts which bear the same ratio to the full credits provided in such subdivisions as the number of months in such period bears to twelve months.

Time and Place For Filing Returns.

Sec. 227. (a) That returns shall be made on or before the fifteenth day of the third month following the close of the fiscal year, or, if the return is made on the basis of the calendar year, then the return shall be made on or before the fifteenth day of March. The Commissioner may grant a reasonable extension of time for filing returns whenever in his judgment good cause exists and shall keep a record of every such extension and the reason therefor. Except in the case of taxpayers who are abroad, no such extension shall be for more than six months.

Returns due
March 15th

Time

Place

(b) Returns shall be made to the collector for the district in which is located the legal residence or principal place of business of the person making the return, or, if he has no legal residence or principal place of business in the United States, then to the collector at Baltimore, Maryland.

Understatement in Returns.

Understate-
ments

Sec. 228. That if the collector or deputy collector has reason to believe that the amount of any income returned is understated, he shall give due notice to the taxpayer making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated, may increase the same accordingly. Such taxpayer may furnish sworn testimony to prove any relevant facts and if dissatisfied with the decision of the collector may appeal to the Commissioner for his decision, under such rules of procedure as may be prescribed by the Commissioner with the approval of the Secretary.

Part III—Corporations.

Tax on Corporations.

Normal Tax

Sec. 230. (a) That, in lieu of the taxes imposed by section 10 of the Revenue Act of 1916, as amended by the Revenue Act of 1917, and by section 4 of the Revenue Act of 1917, there shall be levied, collected, and paid for each taxable year upon the net income of every corporation a tax at the following rates:

(1) For the calendar year 1918, 12 per centum of the amount of the net income in excess of the credits provided in section 236; and

(2) For each calendar year thereafter, 10 per centum of such excess amount.

(b) For the purposes of the Act approved March 21, 1918, entitled "An Act to provide for the operation of transportation systems while under Federal control, for the just compensation of their owners and for other purposes," five-sixths of the tax imposed by paragraph (1) of subdivision (a) and four-fifths of the tax imposed by paragraph (2) of subdivision (a) shall be treated as levied by an Act in amendment of Title I of the Revenue Act of 1917.

Conditional and Other Exemptions.

Exempt
Organizations

Sec. 231. That the following organizations shall be exempt from taxation under this title—

(1) Labor, agricultural, or horticultural organizations;

(2) Mutual savings banks not having a capital stock represented by shares;

(3) Fraternal beneficiary societies, orders, or associations, (a) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and (b) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;

(4) Domestic building and loan associations and cooperative banks without capital stock organized and operated for mutual purposes and without profit;

(5) Cemetery companies owned and operated exclusively for the benefit of their members;

(6) Corporations organized and operated exclusively for religious, charitable, scientific or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual;

(7) Business leagues, chambers of commerce, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private stockholder or individual;

(8) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare;

(9) Clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private stockholder or member;

(10) Farmers' or other mutual hail, cyclone, or fire insurance companies, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting expenses;

(11) Farmers', fruit growers', or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;

(12) Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title;

(13) Federal land banks and national farm-loan associations as provided in section 26 of the Act approved July 17, 1916, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds,

to create Government depositaries and financial agents for the United States, and for other purposes";

(14) Personal service corporations.

Net Income Defined.

Net Income Sec. 232. That in the case of a corporation subject to the tax imposed by section 230 the term "net income" means the gross income defined in section 233 less the deductions allowed by section 234, and the net income shall be computed on the same basis as is provided in subdivision (b) of section 212 or in section 226.

Gross Income Defined.

Gross Income Sec. 233. (a) That in the case of a corporation subject to the tax imposed by section 230 the term "gross income" means the gross income as defined in section 213, except that:

Insurance Companies (1) In the case of life insurance companies there shall not be included in gross income such portion of any actual premium received from any individual policyholder as is paid back or credited to or treated as an abatement of premium of such policyholder within the taxable year.

(2) Mutual marine insurance companies shall include in gross income the gross premiums collected and received by them less amount paid for reinsurance.

Foreign Corporations (b) In the case of a foreign corporation gross income includes only the gross income from sources within the United States, including the interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, dividends from resident corporations and including all amounts received (although paid under a contract for the sale of goods or otherwise) representing profits on the manufacture and disposition of goods within the United States.

Deductions Allowed.

Deductions Sec. 234. (a) That in computing the net income of a corporation subject to the tax imposed by section 230 there shall be allowed as deductions:

Business Expenses (1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including reasonable allowance for salaries or other compensation for personal services actually rendered, and including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title or in which it has no equity;

(2) All interest paid or accrued within the taxable year on its indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917) the interest upon which is wholly exempt from taxation under this title as income to the taxpayer, or, in the case of a foreign corporation, the proportion of such interest which the amount of its gross income from sources within the United States bears to the amount of its gross income from all sources within and without the United States;

Interest

(3) Taxes paid or accrued within the taxable year imposed (a) by the authority of the United States, except income, war profits and excess-profits taxes; or (b) by the authority of any of its possessions, except the amount of income, war profits and excess-profits taxes allowed as a credit under section 238; or (c) by the authority of any State or Territory, or any county, school district, municipality, or other taxing subdivision of any State or Territory, not including those assessed against local benefits of a kind tending to increase the value of the property assessed; or (d) in the case of a domestic corporation, by the authority of any foreign country, except the amount of income, war-profits and excess-profits taxes allowed as a credit under section 238; or (e) in the case of a foreign corporation, by the authority of any foreign country (except income, war-profits and excess-profits taxes, and taxes assessed against local benefits of a kind tending to increase the value of the property assessed), upon the property or business: *Provided*, That in the case of obligors specified in subdivision (b) of section 221 no deduction for the payment of the tax imposed by this title or any other tax paid pursuant to the contract or provision referred to in that subdivision, shall be allowed;

Taxes

(4) Losses sustained during the taxable year and not compensated for by insurance or otherwise;

Losses

(5) Debts ascertained to be worthless and charged off within the taxable year;

(6) Amounts received as dividends from a corporation which is taxable under this title upon its net income, and amounts received as dividends from a personal service corporation out of earnings or profits upon which income tax has been imposed by Act of Congress;

**Dividends
from a
Taxable
Corporation**

(7) A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence;

**Wear and
Tear**

(8) In the case of buildings, machinery, equipment, or other facilities, constructed, erected, installed, or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war, and in the case of vessels constructed or acquired on or after such date for the transportation of articles or men contributing to the prosecution of the present war, there shall be allowed a reason-

**Amortization
of Facilities
for Carrying
on the War**

able deduction for the amortization of such part of the cost of such facilities or vessels as has been borne by the taxpayer, but not again including any amount otherwise allowed under this title or previous acts of Congress as a deduction in computing net income. At any time within three years after the termination of the present war the Commissioner may, and at the request of the taxpayer shall, reexamine the return, and if he then finds as a result of an appraisal or from other evidence that the deduction originally allowed was incorrect, the tax imposed by this title and by Title III for the year or years affected shall be redetermined; and the amount of tax due upon such redetermination, if any, shall be paid upon notice and demand by the collector, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 252.

**Depletion of
Mines, etc.**

(9) In the case of mines, oil and gas wells, other natural deposits and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case based upon cost including cost of development not otherwise deducted. *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer's interest therein) on that date shall be taken in lieu of cost up to that date. *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based upon the fair market value of the property at the date of the discovery, or within 30 days thereafter; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the Commissioner with the approval of the Secretary. In the case of leases the deductions allowed by this paragraph shall be equitably apportioned between the lessor and lessee;

**Insurance
Companies**

(10) In the case of insurance companies, in addition to the above:

(a) The net addition required by law to be made within the taxable year to reserve funds (including in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and (b) the sums other than dividends paid within the taxable year on policy and annuity contracts;

(11) In the case of corporations issuing policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan continuing for life and not subject to cancellation, in addition to the above, such portion of the net addition (not required by law) made within the taxable year to reserve funds as the Commissioner finds to be required for the protection of the holders of such policies only;

(12) In the case of mutual marine insurance companies, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (10), inclusive, amounts repaid to policyholders on account of premiums

previously paid by them, and interest paid upon such amounts between the ascertainment and the payment thereof;

(13) In the case of mutual insurance companies (other than mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (10), inclusive, (unless otherwise allowed under such paragraphs) the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves;

(14) (a) At the time of filing return for the taxable year 1918 a taxpayer may file a claim in abatement based on the fact that he has sustained a substantial loss (whether or not actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such taxable year, or from the actual payment after the close of such taxable year of rebates in pursuance of contracts entered into during such year upon sales made during such year. In such case payment of the amount of the tax covered by such claim shall not be required until the claim is decided, but the taxpayer shall accompany his claim with a bond in double the amount of the tax covered by the claim, with sureties satisfactory to the Commissioner, conditioned for the payment of any part of such tax found to be due, with interest. If any part of such claim is disallowed then the remainder of the tax due shall on notice and demand by the collector be paid by the taxpayer with interest at the rate of 1 per centum per month from the time the tax would have been due had no such claim been filed. If it is shown to the satisfaction of the Commissioner that such substantial loss has been sustained, then in computing the taxes imposed by this title and by Title III the amount of such loss shall be deducted from the net income. (b) If no such claim is filed, but it is shown to the satisfaction of the Commissioner that during the taxable year 1919 the taxpayer has sustained a substantial loss of the character above described then the amount of such loss shall be deducted from the net income for the taxable year 1918 and the taxes imposed by this title and by Title III for such year shall be redetermined accordingly. Any amount found to be due to the taxpayer upon the basis of such redetermination shall be credited or refunded to the taxpayer in accordance with the provisions of section 252.

Reduction of
Inventory,
etc., for 1918

(b) In the case of a foreign corporation the deductions allowed in subdivision (a), except those allowed in paragraph (2) and in clauses (a), (b), and (c) of paragraph (3), shall be allowed only if and to the extent that they are connected with income arising from a source within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined under rules and regulations prescribed by the Commissioner with the approval of the Secretary.

Deduction of
Foreign
Corporations

Items Not Deductible.

Sec. 235. That in computing net income no deduction shall in any case be allowed in respect of any of the items specified in section 215.

Credits Allowed.

Credits

Sec. 236. That for the purpose only of the tax imposed by section 230 there shall be allowed the following credits:

Interest on
Government
Bonds, etc.

(a) The amount received as interest upon obligations of the United States and bonds issued by the War Finance Corporation, which are included in gross income under section 233;

War Profits
and Excess
Profits Taxes

(b) The amount of any taxes imposed by Title III for the same taxable year: *Provided*, That in the case of a corporation which makes return for a fiscal year beginning in 1917 and ending in 1918, in computing the tax as provided in subdivision (a) of section 205, the tax computed for the entire period under Title II of the Revenue Act of 1917 shall be credited against the net income computed for the entire period under Title I of the Revenue Act of 1916 as amended by the Revenue Act of 1917 and under Title I of the Revenue Act of 1917, and the tax computed for the entire period under Title III of this Act at the rates prescribed for the calendar year 1918 shall be credited against the net income computed for the entire period under this title; and

Domestic
Corporations

(c) In the case of a domestic corporation, \$2,000.

Payment of Tax at Source.

Deduction at
Source as to
Foreign
Corporations

Sec. 237. That in the case of foreign corporations subject to taxation under this title not engaged in trade or business within the United States and not having any office or place of business therein, there shall be deducted and withheld at the source in the same manner and upon the same items of income as is provided in section 221 a tax equal to 10 per centum thereof, and such tax shall be returned and paid in the same manner and subject to the same conditions as provided in that section: *Provided*, That in the case of interest described in subdivision (b) of that section the deduction and withholding shall be at the rate of 2 per centum.

Credit For Taxes.

Credit for
Taxes Paid
to a Foreign
Country, etc.

Sec. 238. (a) That in the case of a domestic corporation the total taxes imposed for the taxable year by this title and by Title III shall be credited with the amount of any income, war-profits, and excess-profits taxes paid during the taxable year to any foreign country, upon income derived from sources therein, or to any possession of the United States.

If accrued taxes when paid differ from the amounts claimed as

credits by the corporation, or if any tax paid is refunded in whole or in part, the corporation shall at once notify the Commissioner who shall determine the amount of the taxes due under this title and under title III for the year or years affected, and the amount of taxes due upon such redetermination, if any, shall be paid by the corporation upon notice and demand by the collector, or the amount of taxes overpaid, if any, shall be credited or refunded to the corporation in accordance with the provisions of section 252. In the case of such a tax accrued but not paid, the Commissioner as a condition precedent to the allowance of this credit may require the corporation to give a bond with sureties satisfactory to and to be approved by him in such penal sum as he may require, conditioned for the payment by the taxpayer of any amount of taxes found due upon any such redetermination; and the bond herein prescribed shall contain such further conditions as the Commissioner may require.

(b) This credit shall be allowed only if the taxpayer furnishes evidence satisfactory to the Commissioner showing the amount of income derived from sources within such foreign country or such possession of the United States, as the case may be, and all other information necessary for the computation of such credit.

(c) If a domestic corporation makes a return for a fiscal year beginning in 1917 and ending in 1918, only that proportion of this credit shall be allowed which the part of such period within the calendar year 1918 bears to the entire period.

Corporation Returns.

Sec. 239. That every corporation subject to taxation under this title and every personal service corporation shall make a return, stating specifically the items of its gross income and the deductions and credits allowed by this title. The return shall be sworn to by the president, vice-president, or other principal officer and by the treasurer or assistant treasurer. If any foreign corporation has no office or place of business in the United States but has an agent in the United States, the return shall be made by the agent. In cases where receivers, trustees in bankruptcy, or assignees are operating the property or business of corporations, such receivers, trustees, or assignees shall make returns for such corporations in the same manner and form as corporations are required to make returns. Any tax due on the basis of such returns made by receivers, trustees, or assignees shall be collected in the same manner as if collected from the corporations of whose business or property they have custody and control.

Returns made under this section shall be subject to the provisions of sections 226 and 228.

When return is made under section 226 the credit provided in subdivision (c) of section 236 shall be reduced to an amount which bears

the same ratio to the full credit therein provided as the number months in the period for which such return is made bears to twelve months.

Consolidated Returns.

Consolidated Returns

Sec. 240. (a) That corporations which are affiliated within the meaning of this section shall, under regulations to be prescribed by the Commissioner with the approval of the Secretary, make a consolidated return of net income and invested capital for the purpose of this title and Title III, and the taxes thereunder shall be computed and determined upon the basis of such return: *Provided*, That the net income and invested capital of any such affiliated corporation shall be taken out of such consolidated net income and invested capital the net income and invested capital of any such affiliated corporation organized after August 1, 1914, and not successor to a then existing business, 50 per centum or more of whose gross income consists of gains, profits, commissions, or other income, derived from a government contract or contracts made between April 6, 1917, and November 11, 1918, both dates inclusive. In such case the corporation so taken out shall be separately assessed on the basis of its own invested capital and net income and the remainder of such affiliated group shall be assessed on the basis of the remaining consolidated invested capital and net income.

In any case in which a tax is assessed upon the basis of a consolidated return, the total tax shall be computed in the first instance as if the net income and invested capital of the corporation were taken out of the consolidated return and shall then be assessed upon the respective affiliated corporations in such proportions as may be agreed upon among them, or, in the absence of any such agreement, then on the basis of the net income properly assignable to each. There shall be allowed in computing the income tax only one specific credit of \$2,000 (as provided in section 236); in computing the war-profits credit (as provided in section 311) only one specific exemption of \$3,000; and in computing the excess-profits credit (as provided in section 312) only one specific exemption of \$3,000.

(b) For the purpose of this section two or more domestic corporations shall be deemed to be affiliated (1) if one corporation owns directly or controls through closely affiliated interests or by a nominee or nominees substantially all the stock of the other or others, or (2) if substantially all the stock of two or more corporations is owned or controlled by the same interests.

(c) For the purposes of section 238 a domestic corporation which owns a majority of the voting stock of a foreign corporation shall be deemed to have paid the same proportion of any income, war-profits and excess-profits taxes paid (but not including taxes accrued) by such foreign corporation during the taxable year to any foreign country or to any possession of the United States upon income derived from sources without the United States, which the amount of any dividends (not deductible under section 234) received by such domestic corpora-

on from such foreign corporation during the taxable year bears to the total taxable income of such foreign corporation upon or with respect to which such taxes were paid: *Provided*, That in no such case shall the amount of the credit for such taxes exceed the amount of such dividends (not deductible under section 234) received by such domestic corporation during the taxable year.

Time and Place for Filing Returns.

Sec. 241. (a) That returns of corporations shall be made at the same time as is provided in subdivision (a) of section 227.

Time

(b) Returns shall be made to the collector of the district in which is located the principal place of business or principal office or agency of the corporation, or, if it has no principal place of business or principal office or agency in the United States, then to the collector at Baltimore, Maryland.

Place

Part IV—Administrative Provisions.

Payment of Taxes.

Sec. 250. (a) That except as otherwise provided in this section and sections 221 and 237 the tax shall be paid in four installments, each consisting of one-fourth of the total amount of the tax. The first installment shall be paid at the time fixed by law for filing the return, and the second installment shall be paid on the fifteenth day of the third month, the third installment on the fifteenth day of the sixth month, and the fourth installment on the fifteenth day of the ninth month, after the time fixed by law for filing the return. Where an extension of time for filing a return is granted the time for payment of the first installment shall be postponed until the date of the expiration of the period of the extension, but the time for payment of the other installments shall not be postponed unless the Commissioner so provides in granting the extension. In any case in which the time for the payment of any installment is at the request of the taxpayer thus postponed, there shall be added as part of such installment interest thereon at the rate of $\frac{1}{2}$ of 1 per centum per month from the time it would have been due if no extension had been granted, until paid. If any installment is not paid when due, the whole amount of the tax unpaid shall become due and payable upon notice and demand by the collector.

Payable in
Four Install-
ments

The tax may at the option of the taxpayer be paid in a single payment instead of in installments, in which case the total amount shall be paid on or before the time fixed by law for filing the return, or, where an extension of time for filing the return has been granted, on or before the expiration of the period of such extension.

Or in a Sin-
gle Payment

(b) As soon as practicable after the return is filed, the Commis-

**Overstate-
ment of Tax**

sioner shall examine it. If it then appears that the correct amount the tax is greater or less than that shown in the return, the installment shall be recomputed. If the amount already paid exceeds that which should have been paid on the basis of the installments as recomputed the excess so paid shall be credited against the subsequent installment and if the amount already paid exceeds the correct amount of the tax the excess shall be credited or refunded to the taxpayer in accordance with the provisions of section 252.

**Understate-
ment of Tax**

If the amount already paid is less than that which should have been paid, the difference shall, to the extent not covered by any credit then due to the taxpayer under section 252, be paid upon notice as demanded by the collector. In such case if the return is made in good faith and the understatement of the amount in the return is not due to any fault of the taxpayer, there shall be no penalty because of such understatement. If the understatement is due to negligence on the part of the taxpayer, but without intent to defraud, there shall be added as part of the tax 5 per centum of the total amount of the deficiency, plus interest at the rate of 1 per centum per month on the amount of the deficiency of each installment from the time the installment was due.

If the understatement is false or fraudulent with intent to evade the tax, then, in lieu of the penalty provided by section 3176 of the Revised Statutes, as amended, for false or fraudulent returns wilfully made, but in addition to other penalties provided by law for false or fraudulent returns, there shall be added as part of the tax 50 per centum of the amount of the deficiency.

**Returns
under R. S.
Sec. 3176**

(c) If the return is made pursuant to section 3176 of the Revised Statutes as amended, the amount of tax determined to be due under such return shall be paid upon notice and demand by the collector.

**Limitation
on Time for
Collection
of Tax**

(d) Except in the case of false or fraudulent returns with intent to evade the tax, the amount of tax due under any return shall be determined and assessed by the Commissioner within five years after the return was due or was made, and no suit or proceeding for the collection of any tax shall be begun after the expiration of five years after the date when the return was due or was made. In the case of such false or fraudulent returns, the amount of tax due may be determined at any time after the return is filed, and the tax may be collected at any time after it becomes due.

Tax Overdue

(e) If any tax remains unpaid after the date when it is due, and for ten days after notice and demand by the collector, then, except in the case of estates of insane, deceased, or insolvent persons, there shall be added as part of the tax the sum of 5 per centum on the amount due but unpaid, plus interest at the rate of 1 per centum per month upon such amount from the time it became due: *Provided*, That as to any such amount which is the subject of a bona fide claim for abatement such sum of 5 per centum shall not be added and the interest from

the time the amount was due until the claim is decided shall be at the rate of $\frac{1}{2}$ of 1 per centum per month.

In the case of the first installment provided for in subdivision (a) the instructions printed on the return shall be deemed sufficient notice of the date when the tax is due and sufficient demand, and the taxpayer's computation of the tax on the return shall be deemed sufficient notice of the amount due.

(f) In any case in which in order to enforce payment of a tax it is necessary for a collector to cause a warrant of distraint to be served, there shall also be added as part of the tax the sum of \$5.

(g) If the Commissioner finds that a taxpayer designs quickly to depart from the United States or to remove his property therefrom, or to conceal himself or his property therein, or to do any other act tending to prejudice or to render wholly or partly ineffectual proceedings to collect the tax for the taxable year then last past or the taxable year then current unless such proceedings be brought without delay, the Commissioner shall declare the taxable period for such taxpayer terminated at the end of the calendar month then last past and shall cause notice of such finding and declaration to be given the taxpayer, together with a demand for immediate payment of the tax for the taxable period so declared terminated and of the tax for the preceding taxable year or so much of said tax as is unpaid, whether or not the time otherwise allowed by law for filing return and paying the tax has expired; and such taxes shall thereupon become immediately due and payable. In any action or suit brought to enforce payment of taxes made due and payable by virtue of the provisions of this subdivision the finding of the Commissioner, made as herein provided, whether made after notice to the taxpayer or not, shall be for all purposes presumptive evidence of the taxpayer's design. A taxpayer who is not in default in making any return or paying income, war profits, or excess-profits tax under any Act of Congress may furnish to the United States, under regulations to be prescribed by the Commissioner with the approval of the Secretary, security approved by the Commissioner that he will duly make the return next thereafter required to be filed and pay the tax next thereafter required to be paid. The Commissioner may approve and accept in like manner security for return and payment of taxes made due and payable by virtue of the provisions of this subdivision, provided the taxpayer has paid in full all other income, war profits, or excess-profits taxes due from him under any Act of Congress. If security is approved and accepted pursuant to the provisions of this subdivision and such further or other security with respect to the tax or taxes covered thereby is given as the Commissioner shall from time to time find necessary and require, payment of such taxes shall not be enforced by any proceedings under the provisions of this subdivision prior to the expiration of the time otherwise allowed for paying such respective taxes.

**Taxpayer
Doing Act
to Prejudice
Collection
of Tax**

Receipts for Taxes.

Receipts

Sec. 251. That every collector to whom any payment of any tax is made under the provisions of this title shall upon request give to the person making such payment a full written or printed receipt, stating the amount paid and the particular account for which such payment was made; and whenever any debtor pays taxes on account of payments made or to be made by him to separate creditors the collector shall, if requested by such debtor, give a separate receipt for the amount paid on account of each creditor in such form that the debtor can conveniently produce such receipts separately to his several creditors in satisfaction of their respective demands up to the amounts stated on the receipts; and such receipt shall be sufficient evidence in favor of such debtor to justify him in withholding from his next payment to his creditor the amount therein stated; but the creditor may, upon giving to his debtor a full written receipt acknowledging the payment to him of any sum actually paid and accepting the amount of tax paid on the aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

Refunds.

Tax

Sec. 252. That if, upon examination of any return of income made pursuant to this Act, the Act of August 5, 1909, entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," the Act of October 3, 1917, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," the Revenue Act of 1916, as amended, or the Revenue Act of 1917, it appears that an amount of income, war profits or excess-profits tax has been paid in excess of that properly due, then, notwithstanding the provisions of section 322 of the Revised Statutes, the amount of the excess shall be credited against any income, war profits or excess-profits taxes, or installments thereof, then due from the taxpayer under any other return, and any balance of such excess shall be immediately refunded to the taxpayer. *Provided*, That no such credit or refund shall be allowed or made after five years from the date when the return was due, unless before the expiration of such five years a claim therefor is filed by the taxpayer.

Penalties.

**Penalties
Refund of**

Sec. 253. That any individual, corporation, or partnership required under this title to pay or collect any tax, to make a return or to supply information, who fails to pay or collect such tax, to make such return, or to supply such information at the time or times required under this title, shall be liable to a penalty of not more than \$1,000. Any individual, corporation, or partnership, or any officer or employee of any corporation or member or employee of a partnership, who wilfully refuses to pay or collect such tax, to make such return, or to supply

such information at the time or times required under this title, or who wilfully attempts in any manner to defeat or evade the tax imposed by this title, shall be guilty of a misdemeanor and shall be fined not more than \$10,000 or imprisoned for not more than one year, or both, together with the costs of prosecution.

Returns of Payments of Dividends.

Sec. 254. That every corporation subject to the tax imposed by this title and every personal service corporation shall, when required by the Commissioner, render a correct return duly verified under oath, of its payments of dividends, stating the name and address of each stockholder, the number of shares owned by him, and the amount of dividends paid to him.

Stockholders'
Lists

Returns of Brokers.

Sec. 255. That every individual, corporation, or partnership doing business as a broker shall, when required by the Commissioner, render a correct return duly verified under oath, under such rules and regulations as the Commissioner, with the approval of the Secretary, may prescribe, showing the names of customers for whom such individual, corporation, or partnership has transacted any business, with such details as to the profits, losses, or other information which the Commissioner may require, as to each of such customers, as will enable the Commissioner to determine whether all income tax due on profits or gains of such customers has been paid.

Return by
Broker of
Names of
Customers

Information at Source.

Sec. 256. That all individuals, corporations, and partnerships, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another individual, corporation, or partnership, of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed, or determinable gains, profits, and income (other than payments described in sections 254 and 255), of \$1,000 or more in any taxable year, or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the Commissioner, under such regulations and in such form and manner and to such extent as may be prescribed by him with the approval of the Secretary, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment.

Information
at the Source

Such returns may be required, regardless of amounts, (1) in the case of payments of interest upon bonds, mortgages, deeds of trust, or other similar obligations of corporations, and (2) in the case of

collections of items (not payable in the United States) of interest on the bonds of foreign countries and interest upon the bonds of dividends from foreign corporations by individuals, corporations, partnerships, undertaking as a matter of business or for profit collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange.

When necessary to make effective the provisions of this section the name and address of the recipient of income shall be furnished on demand of the individual, corporation, or partnership paying the income.

The provisions of this section shall apply to the calendar year 1913 and each calendar year thereafter, but shall not apply to the payments of interest on obligations of the United States.

Returns to be Public Records.

Returns
Public
Records

Sec. 257. That returns upon which the tax has been determined by the Commissioner shall constitute public records; but they shall be open to inspection only upon order of the President and under regulations prescribed by the Secretary and approved by the President: *Provided*, That the proper officers of any State imposing an income tax may, upon the request of the governor thereof, have access to the returns of any corporation, or to an abstract thereof showing the name and income of the corporation, at such times and in such manner as the Secretary may prescribe: *Provided further*, That bona fide stockholders of record owning 1 per centum or more of the outstanding stock of any corporation shall, upon making request of the Commissioner, be allowed to examine the annual income returns of such corporation and of its subsidiaries. Any stockholder who pursuant to the provisions of this section is allowed to examine the return of such corporation, and who makes known in any manner whatever not provided by law the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any such return, shall be guilty of a misdemeanor and be punished by a fine not exceeding \$1,000, or by imprisonment not exceeding one year, or both.

The Commissioner shall as soon as practicable in each year cause to be prepared and made available to public inspection in such manner as he may determine, in the office of the collector in each internal revenue district and in such other places as he may determine, lists containing the names and the post-office addresses of all individuals making income-tax returns in such district.

Publication of Statistics.

Statistics
Published

Sec. 258. That the Commissioner, with the approval of the Secretary, shall prepare and publish annually statistics reasonably available with respect to the operation of the income, war profits and excess-profits tax laws, including classifications of taxpayers and of income,

the amounts allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

Collection of Foreign Items.

Sec. 259. That all individuals, corporations, or partnerships undertaking as a matter of business or for profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner and shall be subject to such regulations enabling the Government to obtain the information required under this title as the Commissioner, with the approval of the Secretary, shall prescribe; and whoever knowingly undertakes to collect such payments without having obtained a license therefor, or without complying with such regulations, shall be guilty of a misdemeanor and shall be fined not more than \$5,000, or imprisoned for not more than one year, or both.

Collector
of Foreign
Items to
Obtain
License

Citizens of United States Possessions.

Sec. 260. That any individual who is a citizen of any possession of the United States (but not otherwise a citizen of the United States) and who is not a resident of the United States, shall be subject to taxation under this title only as to income derived from sources within the United States, and in such case the tax shall be computed and paid in the same manner and subject to the same conditions as in the case of other persons who are taxable only as to income derived from such sources.

Citizens of
U. S. Posses-
sions

Porto Rico and Philippine Islands.

Sec. 261. That in Porto Rico and the Philippine Islands the income tax shall be levied, assessed, collected, and paid in accordance with the provisions of the Revenue Act of 1916 as amended.

Returns shall be made and taxes shall be paid under Title I of such Act in Porto Rico or the Philippine Islands, as the case may be, by (1) every individual who is a citizen or resident of Porto Rico or the Philippine Islands or derives income from sources therein, and (2) every corporation created or organized in Porto Rico or the Philippine Islands or deriving income from sources therein. An individual who is neither a citizen nor a resident of Porto Rico or the Philippine Islands but derives income from sources therein, shall be taxed in Porto Rico or the Philippine Islands as a nonresident alien individual, and a corporation created or organized outside Porto Rico or the Philippine Islands and deriving income from sources therein shall be taxed in Porto Rico or the Philippine Islands as a foreign corporation. For the purposes of section 216 and of paragraph (6) of subdivision (a) of section 234 a tax imposed in Porto Rico or the Philippine Islands upon the net income of a corporation shall not be deemed to be a tax under this title.

Porto Rico
and Philip-
pines Taxed
Under Rev-
enue Act
of 1916

The Porto Rican or Philippine Legislature shall have power due enactment to amend, alter, modify, or repeal the income tax law in force in Porto Rico or the Philippine Islands, respectively.

TITLE XIII.—GENERAL ADMINISTRATIVE PROVISIONS

(Relating to the Income Tax.)

**Advisory
Tax Board**

(d) (1) There is hereby created a board to be known as the "Advisory Tax Board," hereinafter called the Board, and to be composed of not to exceed six members to be appointed by the Commissioner with the approval of the Secretary. The Board shall cease to exist at the expiration of two years after the passage of this Act, or at such earlier time as the Commissioner with the approval of the Secretary may designate.

* * * * *

(2) The Commissioner may, and on the request of any taxpayer directly interested shall, submit to the Board any question relating to the interpretation or administration of the income, war-profits or excess profits tax laws, and the Board shall report its findings and recommendations to the Commissioner.

(3) The Board shall have its office in the Bureau of Internal Revenue in the District of Columbia. * * * *

(4) The Board shall have the power to summon witnesses, take testimony, administer oaths and to require any person to produce books, papers, documents, or other data relating to any matter under investigation by the Board. Any member of the Board may sign subpoenas and members and employees of the Bureau of Internal Revenue designated to assist the Board, when authorized by the Board, may administer oaths, examine witnesses, take testimony and receive evidence.

**Legislative
Drafting
Service**

Sec. 1303. (a) That there is hereby created a Legislative Drafting Service under the direction of two draftsmen, one of whom shall be appointed by the President of the Senate, and one by the Speaker of the House of Representatives, without reference to political affiliations and solely on the ground of fitness to perform the duties of the office.

* * * * *

(b) The Drafting Service shall aid in drafting public bills and resolutions or amendments thereto on the request of any committee of either House of Congress, but the Library Committee of the Senate and the Library Committee of the House of Representatives, respectively, may determine the preference, if any, to be given to such requests of the committees of either House, respectively. The draftsmen shall, from time to time, prescribe rules and regulations for the conduct of the work of the service for the committees of each House, subject to the approval of the Library Committee of each House, respectively.

T H E I N C O M E T A X L A W

* * * * *

Sec. 1305. That all administrative, special, or stamp provisions of law, including the law relating to the assessment of taxes, so far as applicable, are hereby extended to and made a part of this Act, and every person liable to any tax imposed by this Act, or for the collection thereof, shall keep such records and render, under oath, such statements and returns, and shall comply with such regulations as the Commissioner, with the approval of the Secretary, may from time to time prescribe.

**Administra-
tive Pro-
visions Made
Part of
This Act**

Whenever in the judgment of the Commissioner necessary he may require any person, by notice served upon him, to make a return or such statements as he deems sufficient to show whether or not such person is liable to tax.

**Commissioner
May Require
Return**

The Commissioner, for the purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made, is hereby authorized, by any revenue agent or inspector designated by him for that purpose, to examine any books, papers, records or memoranda bearing upon the matters required to be included in the return, and may require the attendance of the person rendering the return or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons.

* * * * *

Sec. 1307. That in all cases where the method of collecting the tax imposed by this Act is not specifically provided in this Act, the tax shall be collected in such manner as the Commissioner, with the approval of the Secretary, may prescribe.

* * * * *

Sec. 1309. That the Commissioner, with the approval of the Secretary, is hereby authorized to make all needful rules and regulations for the enforcement of the provisions of this Act.

* * * * *

Sec. 1313. That in the payment of any tax under this Act not payable by stamp a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to 1 cent.

Sec. 1314. That collectors may receive, at par with an adjustment for accrued interest, certificates of indebtedness issued by the United States and uncertified checks in payment of income, war-profits and excess-profits taxes and any other taxes payable other than by stamp, during such time and under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe; but if a check so received

**Uncertified
Checks**

is not paid by the bank on which it is drawn the person by whom such check has been tendered shall remain liable for the payment of the tax and for all legal penalties and additions the same as if such check had not been tendered.

* * * * *

Sec. 1316. (a) That section 3220 of the Revised Statutes is hereby amended to read as follows:

Commissioner
Authorized
to Refund
Taxes

"Sec. 3220. The Commissioner of Internal Revenue, subject to regulations prescribed by the Secretary of the Treasury, is authorized to remit, refund, and pay back all taxes erroneously or illegally assessed or collected, all penalties collected without authority, and all taxes that appear to be unjustly assessed or excessive in amount, or in any manner wrongfully collected; also to repay to any collector or deputy collector the full amount of such sums of money as may be recovered against him in any court, for any internal revenue taxes collected by him, with the cost and expenses of suit; also all damages and costs recovered against any assessor, assistant assessor, collector, deputy collector, agent or inspector, in any suit brought against him by reason of anything done in the due performance of his official duty, and shall make report to Congress at the beginning of each regular session of Congress of all transactions under this section."

(b) Section 3225 of the Revised Statutes of the United States is hereby amended to read as follows:

"Sec. 3225. When a second assessment is made in case of any list, statement, or return, which in the opinion of the collector or deputy collector was false or fraudulent, or contained any understatement of undervaluation, such assessment shall not be remitted, nor shall taxes collected under such assessment be refunded, or paid back, or recovered by any suit, unless it is proved that such list, statement, or return was not wilfully false or fraudulent and did not contain any willful understatement or undervaluation."

(c) That the paragraph of section 3689 of the Revised Statutes, as amended, reading as follows:

"Refunding taxes illegally collected (internal revenue): To refund and pay back duties erroneously or illegally assessed or collected under the internal-revenue laws" is repealed from and after June 30, 1920; and the Secretary of the Treasury shall submit for the fiscal year 1921, and annually thereafter, an estimate of appropriations to refund and pay back duties or taxes erroneously or illegally assessed or collected under the internal-revenue laws, and to pay judgments, including interest and costs, rendered for taxes or penalties erroneously or illegally assessed or collected under the internal-revenue laws.

Sec. 1317. That sections 3164, 3165, 3167, 3172, 3173, and 3176 of the Revised Statutes as amended are hereby amended to read as follows:

"Sec. 3164. It shall be the duty of every collector of internal revenue having knowledge of any willful violation of any law of the United States relating to the revenue, within thirty days after coming into possession of such knowledge, to file with the district attorney of the district in which any fine, penalty, or forfeiture may be incurred, a statement of all the facts and circumstances of the case within his knowledge, together with the names of the witnesses, setting forth the provisions of law believed to be so violated on which reliance may be had for condemnation or conviction.

**Duty of
Collector to
File State-
ment of
Violation**

"Sec. 3165. Every collector, deputy collector, internal-revenue agent, and internal-revenue officer assigned to duty under an internal-revenue agent, is authorized to administer oaths and to take evidence touching any part of the administration of the internal-revenue laws with which he is charged, or where such oaths and evidence are authorized by law or regulation authorized by law to be taken.

**Collector
May Admin-
ister Oaths**

"Sec. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment.

**Secrecy of
Returns**

"Sec. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

"Sec. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, (1) in case of a special tax, on or before the thirty-first day of July in each year, and (2) in other cases before the day on which the taxes accrue, to make a list or return, verified by oath, to the collector or a deputy collector of the district where located, of the articles or objects, including the quan-

**Duty to
Make Return**

tity of goods, wares, and merchandise, made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable. *Provided*, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, article or objects liable to pay any duty, tax or license shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum verified by oath. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is erroneous, false, or fraudulent, or contains any undervaluation or understatement, or refuses to allow any regularly authorized Government officer to examine the books of such person, firm, or corporation, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books or account containing entries relating to the business of such person or any other person he may deem proper, to appear before him and produce such books at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects or income liable to tax or the returns thereof. The collector may summon any person residing or found within the State or Territory in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State or Territory, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority which he might lawfully exercise in the district for which he was commissioned: *Provided*, That 'person,' as used in this

ction, shall be construed to include any corporation, joint-stock company or association, or insurance company where such construction is necessary to carry out its provisions.

"Sec. 3176. If any person, corporation, company, or association fails to make and file a return or list at the time prescribed by law or by regulation made under authority of law, or makes, willfully or otherwise, a false or fraudulent return or list, the collector or deputy collector shall make the return or list from his own knowledge and from such information as he can obtain through testimony or otherwise. In any such case the Commissioner may, from his own knowledge and from such information as he can obtain through testimony or otherwise, make a return or amend any return made by a collector or deputy collector. Any return or list so made and subscribed by the Commissioner, or by a collector or deputy collector and approved by the Commissioner, shall be prima facie good and sufficient for all legal purposes.

**Collector
to Make
Return**

"If the failure to file a return or list is due to sickness or absence, the collector may allow such further time, not exceeding thirty days, for making and filing the return or list as he deems proper.

"The Commissioner of Internal Revenue shall determine and assess all taxes, other than stamp taxes, as to which returns or lists are so made under the provisions of this section. In case of any failure to make and file a return or list within the time prescribed by law, or prescribed by the Commissioner of Internal Revenue or the collector in pursuance of law, the Commissioner of Internal Revenue shall add to the tax 25 per centum of its amount, except that when a return is filed after such time and it is shown that the failure to file it was due to a reasonable cause and not to willful neglect, no such addition shall be made to the tax. In case a false or fraudulent return or list is willfully made, the Commissioner of Internal Revenue shall add to the tax 50 per centum of its amount.

Penalties

"The amount so added to any tax shall be collected at the same time and in the same manner and as part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax."

Sec. 1318. That if any person is summoned under this Act to appear, to testify, or to produce books, papers or other data, the district court of the United States for the district in which such person resides shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, or other data.

The district courts of the United States at the instance of the United States are hereby invested with such jurisdiction to make and issue, both in actions at law and suits in equity, writs and orders of injunction, and of ne exeat republica, orders appointing receivers, and such other orders and process, and to render such judgments and decrees, granting in proper cases both legal and equitable relief together, as may be necessary or appropriate for the enforcement of the provisions of this Act. The

**District
Court to
Have Juris-
diction**

remedies hereby provided are in addition to and not exclusive of and all other remedies of the United States in such courts or otherwise to enforce such provisions.

* * * * *

**Liberty
Bonds as
Undertaking**

Sec. 1320. That wherever by the laws of the United States or regulations made pursuant thereto, any person is required to furnish a recognizance, stipulation, bond, guarantee, or undertaking, hereinafter called "penal bond," with surety or sureties, such person may, in lieu of such surety or sureties, deposit as security with the official having authority to approve such penal bond, United States Liberty bonds or other bonds of the United States in a sum equal at their par value to the amount of such penal bond required to be furnished, together with an agreement authorizing such official to collect or sell such bonds so deposited in case of any default in the performance of any of the conditions or stipulations of such penal bond. The acceptance of such United States bonds in lieu of surety or sureties required by law shall have the same force and effect as individual or corporate sureties, or certified checks, bank drafts, post-office money orders, or cash, for the penalty or amount of such penal bond. The bonds deposited hereunder and such other United States bonds as may be substituted therefor from time to time as such security, may be deposited with the Treasurer, or an Assistant Treasurer of the United States, a Government depository, Federal Reserve bank, or member bank, which shall issue receipt therefor, describing such bonds so deposited. As soon as security for the performance of such penal bond is no longer necessary, such bonds so deposited, shall be returned to the depositor: *Provided*, That in case a person or persons supplying a contractor with labor or material as provided by the Act of Congress, approved February 24, 1905 (33 Stat., 811), entitled "An Act to amend an Act approved August thirteenth, eighteen hundred and ninety-four, entitled 'An Act for the protection of persons furnishing materials and labor for the construction of public works,'" shall file with the obligee, at any time after a default in the performance of any contract subject to said Acts, the application and affidavit therein provided, the obligee shall not deliver to the obligor the deposited bonds nor any surplus proceeds thereof until the expiration of the time limited by said Acts for the institution of suit by such person or persons, and, in case suit shall be instituted within such time, shall hold said bonds or proceeds subject to the order of the court having jurisdiction thereof: *Provided further*, That nothing herein contained shall affect or impair the priority of the claim of the United States against the bonds deposited or any right or remedy granted by said Acts or by this section to the United States for default upon any obligation of said penal bond: *Provided further*, That all laws inconsistent with this action are hereby so modified as to conform to the provisions hereof: *And provided further*, That nothing contained herein shall affect the authority of courts over the security, where such bonds are taken as security in judicial proceedings, or the authority of any administrative officer of the United States to receive United States bonds for security

cases authorized by existing laws. The Secretary may prescribe rules and regulations necessary and proper for carrying this section into effect.

TITLE XIV.—GENERAL PROVISIONS.

(Relating to the Income Tax.)

Sec. 1400. (a) That the following parts of Acts are hereby repealed, subject to the limitations provided in subdivision (b):

(1) The following titles of the Revenue Act of 1916:

Title I (called "Income Tax");

* * * * *

(3) The following titles of the Revenue Act of 1917:

Title I (called "War Income Tax");

* * * * *

Title X (called "Administrative Provisions");

Title XII (called "Income-Tax Amendments").

(b) Such parts of Acts shall remain in force for the assessment and collection of all taxes which have accrued thereunder, and for the imposition and collection of all penalties or forfeitures which have accrued and may accrue in relation to any such taxes, and except that the unexpended balance of any appropriation heretofore made and now available for the administration of any such part of an Act shall be available for the administration of this Act or the corresponding provision thereof: *Provided*, That, except as otherwise provided in this Act, no taxes shall be collected under Title I of the Revenue Act of 1916 as amended by the Revenue Act of 1917, or Title I or II of the Revenue Act of 1917, in respect to any period after December 31, 1917.

* * * * *

In the case of any tax imposed by any part of an Act herein repealed, if there is a tax imposed by this Act in lieu thereof, the provision imposing such tax shall remain in force until the corresponding tax under this Act takes effect under the provisions of this Act.

Title I of the Revenue Act of 1916 as amended by the Revenue Act of 1917 shall remain in force for the assessment and collection of the income tax in Porto Rico and the Philippine Islands, except as may be otherwise provided by their respective legislatures.

* * * * *

Sec. 1402. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent juris-

iction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment has been rendered.

Sec. 1403. That the Revenue Act of 1916 is hereby amended by adding at the end thereof a section to read as follows:

"Sec. 903. That this Act may be cited as the 'Revenue Act of 1916.'"

Sec. 1404. That the Revenue Act of 1917 is hereby amended by adding at the end thereof a section to read as follows:

"Sec. 1303. That this Act may be cited as the 'Revenue Act of 1917.'"

Sec. 1405. That this Act may be cited as the "Revenue Act of 1918."

* * * * *

Sec. 1408. That every person who on or after April 6, 1917, has entered into any contract, undertaking, or agreement, with the United States, or with any department, bureau, officer, commission, board, or agency under the United States or acting in its behalf, or with any other person having contract relations with the United States, for the performance of any work or the supplying of any materials or property or the use of or for the account of the United States, shall, within thirty days after a request of the Commissioner therefor, file with the Commissioner a true and correct copy of every such contract, undertaking, or agreement.

**War
Contracts**

Whoever fails to comply with such request of the Commissioner shall be guilty of a misdemeanor and shall be punished by a fine of not more than \$1,000, or by imprisonment for not more than one year, or both.

The Commissioner shall (when not violative of the technical military or naval secrets of the Government) have access to all information and data relating to any such contract, undertaking, or agreement, in the possession, control or custody of any department, bureau, board, agency, officer or commission of the United States, and may call upon any such department, bureau, board, agency, officer or commission for a full statement and description of any allowance for amortization, obsolescence, depreciation or loss, or of any valuation, appraisal, adjustment or final settlement, made in pursuance of any such contract, undertaking, or agreement.

Sec. 1409. That unless otherwise herein specially provided, this Act shall take effect on the day following its passage.

Collection Districts
with the
Names and Addresses of Collectors
of Internal Revenue

Revised to February 10, 1919

ALABAMA (Includes Mississippi)

John D. McNeel, Birmingham.

ALASKA (See Washington)

ARIZONA (See New Mexico)

ARKANSAS

Jack Walker, Little Rock.

CALIFORNIA (First District includes Nevada)

First District—Justus S. Wardell, San Francisco.

Sixth District—John P. Carter, Los Angeles.

COLORADO (Includes Wyoming)

Mark A. Skinner, Denver.

CONNECTICUT (Includes Rhode Island)

James J. Walsh, Hartford.

DELAWARE (See Maryland)

FLORIDA

James M. Cathcart, Jacksonville.

GEORGIA

Aaron O. Blalock, Atlanta.

HAWAII

Howard Hathaway.

IDAHO (See Montana)

ILLIONIS

First District—Julius F. Smietanka, Chicago.

Fifth District—Edward D. McCabe, Peoria.

Eighth District—John L. Pickering, Springfield.

Thirteenth District—John M. Rapp, E. St. Louis.

INDIANA

Sixth District—Peter J. Kruyer, Indianapolis.

Seventh District—Isaac R. Strouse, Terre Haute.

IOWA

Louis Murphy, Dubuque.

KANSAS

William H. L. Pepperell, Wichita.

KENTUCKY

Second District—Josh T. Griffith, Owensboro.

Fifth District—J. Rogers Gore (Acting Collector), Louisville.

Sixth District—Charlton B. Thompson, Covington.

Seventh District—Elwood Hamilton, Lexington.

Eighth District—John W. Hughes, Danville.

LOUISIANA

John Y. Fauntleroy, New Orleans.

MAINE (See New Hampshire)

MARYLAND

Joshua W. Miles, Baltimore.

District of Maryland consists of the following named territory: The States of Maryland and Delaware, the District of Columbia, and the counties of Accomac and Northampton of the State of Virginia.

MASSACHUSETTS

John F. Malley, Boston.

MICHIGAN

First District—James J. Brady, Detroit.

Fourth District—Emanuel J. Doyle, Grand Rapids.

MINNESOTA

Edward J. Lynch, St. Paul.

MISSISSIPPI (See Alabama).

MISSOURI

First District—George H. Moore, St. Louis.

Sixth District—George F. Crutchley, Kansas City.

MONTANA (Includes Utah and Idaho)

William C. Whaley, Helena.

NEBRASKA

George L. Loomis, Omaha.

C O L L E C T I O N D I S T R I C T S

EVADA (See First District, California)

EW HAMPSHIRE (Includes Maine and Vermont)

Seth W. Jones, Portsmouth.

EW JERSEY

First District—Samuel Iredell, Camden.

Fifth District—Charles V. Duffy, Newark.

EW MEXICO (Includes Arizona)

Alfred Franklin, Phoenix.

EW YORK

First District—Bertram Gardner (Acting Collector), Brooklyn.

Second District—William H. Edwards, Custom House, New York.

Third District—Mark Eisner, 1150 Broadway, New York.

Fourteenth District—Roscoe Irwin, Albany.

Twenty-first District—Neal Brewster, Syracuse.

Twenty-eighth District—Vincent H. Riordan, Buffalo.

NORTH CAROLINA

Fourth District—Josiah W. Bailey, Raleigh.

Fifth District—Alston D. Watts, Statesville.

NORTH AND SOUTH DAKOTA

James Coffey, Aberdeen, South Dakota.

OHIO

First District—Andrew C. Gilligan, Cincinnati.

Tenth District—Frank B. Niles, Toledo.

Eleventh District—Beriah E. Williamson, Columbus.

Eighteenth District—Harry H. Weiss, Cleveland.

OKLAHOMA

Hubert L. Bolen, Oklahoma City.

OREGON

Milton A. Miller, Portland.

PENNSYLVANIA

First District—Ephraim Lederer, Philadelphia.

Ninth District—Benjamin F. Davis, Lancaster.

Twelfth District—Fred C. Kirkendall, Scranton.

Twenty-third District—C. Gregg Lewellyn, Pittsburgh.

RHODE ISLAND (See Connecticut)

SOUTH CAROLINA

Duncan C. Heyward, Columbia.

SOUTH DAKOTA (See North and South Dakota)

TENNESSEE

Edward B. Craig, Nashville.

TEXAS

Alexander S. Walker, Austin.

UTAH (See Montana)

VERMONT (See New Hampshire)

VIRGINIA

Second District—Richard C. L. Moncure, Richmond.

Sixth District—John M. Hart, Roanoke.

WASHINGTON (Includes Alaska)

David J. Williams, Tacoma.

WEST VIRGINIA

Samuel A. Hays, Parkersburg.

WISCONSIN

First District—Paul A. Hemmy, Milwaukee.

Second District—Burt Williams, Madison.

WYOMING (See Colorado)

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